

ARTIST TRUST

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2021 AND 2020



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Artist Trust
Seattle, Washington

Opinion

We have audited the accompanying financial statements of Artist Trust (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Artist Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Artist Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

(Continued on next page)

TEL 206.525.5170
17544 Midvale Ave N, Suite 100
Shoreline, WA 98133
www.judyjonescpa.com

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Artist Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Artist Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Jones & Associates PLLC, CPAs

Jones & Associates PLLC, CPAs
May 18, 2022

ARTIST TRUST
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|--------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 962,227 | \$ 944,123 |
| Pledges and grants receivable | 186,250 | 299,506 |
| Prepaid expenses | 8,642 | 33,529 |
| Inventory | 47,400 | 183,065 |
| Total current assets | 1,204,519 | 1,460,223 |
| Cash and cash equivalents held for long-term purposes | 525,172 | 338,226 |
| Pledges and grants receivable, long-term, net | 533,649 | 622,062 |
| Investments held by Vanguard | 3,298,068 | 2,596,831 |
| Assets held in trust | 217,804 | 199,263 |
| Property and equipment, net | 264,009 | 270,571 |
| | \$ 6,043,221 | \$ 5,487,176 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 25,158 | \$ 31,324 |
| Mortgage note payable | 12,582 | 12,925 |
| Total current liabilities | 37,740 | 44,249 |
| Mortgage note payable, long-term | 138,739 | 150,362 |
| Total liabilities | 176,479 | 194,611 |
| NET ASSETS | | |
| Without donor restrictions - undesignated | 985,133 | 893,652 |
| Without donor restrictions - Board designated | 628,478 | 481,547 |
| Total net assets without donor restrictions | 1,613,611 | 1,375,199 |
| With donor restrictions - purpose and time | 2,131,411 | 2,285,646 |
| With donor restrictions - perpetual in nature | 2,121,720 | 1,631,720 |
| Total net assets with donor restrictions | 4,253,131 | 3,917,366 |
| Total net assets | 5,866,742 | 5,292,565 |
| | \$ 6,043,221 | \$ 5,487,176 |

ARTIST TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

| | Total | Without donor restrictions | | With donor restrictions | |
|--|---------------------|----------------------------|-------------------|-------------------------|---------------------|
| | | Undesignated | Board Designated | Purpose and time | Perpetual in nature |
| SUPPORT AND REVENUE | | | | | |
| Contributions | 1,428,922 | \$ 527,507 | \$ 89,416 | \$ 321,999 | \$ 490,000 |
| Benefit events, net | 402 | 402 | - | - | - |
| Grants from government agencies | 192,926 | 192,926 | - | - | - |
| In-kind contributions | 6,516 | 6,516 | - | - | - |
| Program income | 300 | 300 | - | - | - |
| | <u>1,629,066</u> | <u>727,651</u> | <u>89,416</u> | <u>321,999</u> | <u>490,000</u> |
| Net assets released from restrictions | - | 711,140 | - | (711,140) | - |
| Transfers of board designated funds | - | (57,515) | 57,515 | - | - |
| Total support and revenue | <u>1,629,066</u> | <u>1,381,276</u> | <u>146,931</u> | <u>(389,141)</u> | <u>490,000</u> |
| EXPENSES | | | | | |
| Program services | | | | | |
| Artist grants | 667,699 | 667,699 | - | - | - |
| Creative Career Center | 198,379 | 198,379 | - | - | - |
| | <u>866,078</u> | <u>866,078</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Supporting services | | | | | |
| Management and general | 143,982 | 143,982 | - | - | - |
| Fundraising | 236,459 | 236,459 | - | - | - |
| Auction | 100,144 | 100,144 | - | - | - |
| Total expenses | <u>1,346,663</u> | <u>1,346,663</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net assets before other gains | <u>282,403</u> | <u>34,613</u> | <u>146,931</u> | <u>(389,141)</u> | <u>490,000</u> |
| OTHER GAINS | | | | | |
| Endowment investment gains | 234,906 | - | - | 234,906 | - |
| Endowment investment income, net of fees | 56,868 | 56,868 | - | - | - |
| Total other gains | <u>291,774</u> | <u>56,868</u> | <u>-</u> | <u>234,906</u> | <u>-</u> |
| CHANGE IN NET ASSETS | <u>574,177</u> | <u>91,481</u> | <u>146,931</u> | <u>(154,235)</u> | <u>490,000</u> |
| NET ASSETS | | | | | |
| Beginning of the year | <u>5,292,565</u> | <u>893,652</u> | <u>481,547</u> | <u>2,285,646</u> | <u>1,631,720</u> |
| End of the year | <u>\$ 5,866,742</u> | <u>\$ 985,133</u> | <u>\$ 628,478</u> | <u>\$ 2,131,411</u> | <u>\$ 2,121,720</u> |

ARTIST TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

| | Total | Without donor restrictions | | With donor restrictions | |
|--|---------------------|----------------------------|-------------------|-------------------------|---------------------|
| | | Undesignated | Board Designated | Purpose and time | Perpetual in nature |
| SUPPORT AND REVENUE | | | | | |
| Contributions | \$ 1,598,709 | \$ 675,101 | \$ 136,904 | \$ 786,704 | \$ - |
| Benefit events, net | - | - | - | - | - |
| Grants from government agencies | 238,027 | 238,027 | - | - | - |
| In-kind contributions | 187,976 | 4,911 | - | 183,065 | - |
| Program income | 2,127 | 2,127 | - | - | - |
| Other interest income | 398 | 398 | - | - | - |
| | <u>2,027,237</u> | <u>920,564</u> | <u>136,904</u> | <u>969,769</u> | <u>-</u> |
| Net assets released from restrictions | - | 1,152,176 | - | (1,152,176) | - |
| Transfers of board designated funds | - | 147,385 | (147,385) | - | - |
| Total support and revenue | <u>2,027,237</u> | <u>2,220,125</u> | <u>(10,481)</u> | <u>(182,407)</u> | <u>-</u> |
| EXPENSES | | | | | |
| Program services | | | | | |
| Artist grants | 976,456 | 976,456 | - | - | - |
| Creative Career Center | 216,754 | 216,754 | - | - | - |
| | <u>1,193,210</u> | <u>1,193,210</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Supporting services | | | | | |
| Management and general | 194,628 | 194,628 | - | - | - |
| Fundraising | 211,277 | 211,277 | - | - | - |
| Auction | 79,053 | 79,053 | - | - | - |
| Total expenses | <u>1,678,168</u> | <u>1,678,168</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net assets before other gains | <u>349,069</u> | <u>541,957</u> | <u>(10,481)</u> | <u>(182,407)</u> | <u>-</u> |
| OTHER GAINS | | | | | |
| Endowment investment gains | 301,952 | - | 8,676 | 293,276 | - |
| Endowment investment income, net of fees | 36,102 | - | 1,052 | 35,050 | - |
| Distribution from assets held in trust | - | 6,700 | - | (6,700) | - |
| Total other gains | <u>338,054</u> | <u>6,700</u> | <u>9,728</u> | <u>321,626</u> | <u>-</u> |
| CHANGE IN NET ASSETS | <u>687,123</u> | <u>548,657</u> | <u>(753)</u> | <u>139,219</u> | <u>-</u> |
| NET ASSETS | | | | | |
| Beginning 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> |
| End of the year | <u>\$ 5,292,565</u> | <u>\$ 893,652</u> | <u>\$ 481,547</u> | <u>\$ 2,285,646</u> | <u>\$ 1,631,720</u> |

ARTIST TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

| | Program Services | | | Support Services | | | |
|---|------------------|------------------------|------------|------------------------|-------------|------------|--------------|
| | Artist Grants | Creative Career Center | Total | Management and General | Fundraising | Auction | Total |
| Salaries and wages | \$ 137,114 | \$ 103,932 | \$ 241,046 | \$ 81,216 | \$ 100,965 | \$ 28,124 | \$ 451,351 |
| Employee benefits | 13,526 | 8,462 | 21,988 | 9,506 | 8,415 | 2,837 | 42,746 |
| Payroll taxes | 11,678 | 8,841 | 20,519 | 6,937 | 8,644 | 2,402 | 38,502 |
| Total payroll and related | 162,318 | 121,235 | 283,553 | 97,659 | 118,024 | 33,363 | 532,599 |
| COVID-19 Artist Trust Relief Fund | 199,500 | - | 199,500 | - | - | - | 199,500 |
| GAP Awards | 97,500 | - | 97,500 | - | - | - | 97,500 |
| Fellowship awards | 90,000 | - | 90,000 | - | - | - | 90,000 |
| Arts Innovator Award | 53,000 | - | 53,000 | - | - | - | 53,000 |
| Lifetime Achievement Award | 10,000 | - | 10,000 | - | - | - | 10,000 |
| SOLA Award | 9,000 | - | 9,000 | - | - | - | 9,000 |
| Professional fees | 21,611 | 20,514 | 42,125 | 24,623 | 14,511 | 5,952 | 87,211 |
| Loss on gift in kinds | - | - | - | - | - | 56,630 | 56,630 |
| Bad debt expense | - | - | - | - | 44,950 | - | 44,950 |
| Supplies and materials | 1,777 | 2,959 | 4,736 | 8,477 | 15,052 | 265 | 28,530 |
| Depreciation | 5,238 | 15,879 | 21,117 | 2,204 | 3,307 | - | 26,628 |
| Miscellaneous | 5,907 | 11,742 | 17,649 | 3,350 | 3,925 | - | 24,924 |
| Marketing and public relations | 1,512 | 2,500 | 4,012 | 3,277 | 16,142 | 500 | 23,931 |
| Telecommunications | 5,963 | 9,709 | 15,672 | 1,662 | 2,134 | 2,409 | 21,877 |
| Occupancy | 3,582 | 12,189 | 15,771 | 1,716 | 2,378 | - | 19,865 |
| Postage, printing, copying | 791 | 1,437 | 2,228 | 443 | 10,287 | 4 | 12,962 |
| Bank charges | - | 60 | 60 | 339 | 5,631 | 999 | 7,029 |
| Travel | - | 155 | 155 | 232 | 118 | 22 | 527 |
| Total expenses | 667,699 | 198,379 | 866,078 | 143,982 | 236,459 | 100,144 | 1,346,663 |
| Plus expenses included with revenues on the statement of activities | | | | | | | |
| Cost of direct benefits to donors | - | - | - | - | - | 111,927 | 111,927 |
| Total functional expenses | \$ 667,699 | \$ 198,379 | \$ 866,078 | \$ 143,982 | \$ 236,459 | \$ 212,071 | \$ 1,458,590 |

See accompanying notes to financial statements.

ARTIST TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

| | Program Services | | | Support Services | | | |
|-----------------------------------|-------------------|------------------------|---------------------|------------------------|-------------------|------------------|---------------------|
| | Artist Grants | Creative Career Center | Total | Management and General | Fundraising | Auction | Total |
| Salaries and wages | \$ 127,878 | \$ 121,475 | \$ 249,353 | \$ 116,703 | \$ 129,405 | \$ 26,763 | \$ 522,224 |
| Employee benefits | 14,247 | 12,907 | 27,154 | 10,583 | 13,015 | 3,090 | 53,842 |
| Payroll taxes | 11,313 | 10,693 | 22,006 | 10,299 | 11,447 | 2,411 | 46,163 |
| Total payroll and related | 153,438 | 145,075 | 298,513 | 137,585 | 153,867 | 32,264 | 622,229 |
| COVID-19 Artist Trust Relief Fund | 683,500 | - | 683,500 | - | - | - | 683,500 |
| Fellowship awards | 1,050 | - | 1,050 | - | - | - | 1,050 |
| Arts Innovator Award | 50,000 | - | 50,000 | - | - | - | 50,000 |
| Lifetime Achievement Award | 10,000 | - | 10,000 | - | - | - | 10,000 |
| SOLA Award | 9,000 | - | 9,000 | - | - | - | 9,000 |
| Grant/stipend scholarships | 6,000 | 60 | 6,060 | - | - | - | 6,060 |
| Professional fees | 22,085 | 14,046 | 36,131 | 43,608 | 4,393 | 31,168 | 115,300 |
| Bad debt expense | 16,500 | - | 16,500 | - | 21,687 | 7,099 | 45,286 |
| Supplies and materials | 1,137 | 2,114 | 3,251 | 3,112 | 435 | 502 | 7,300 |
| Depreciation | 5,238 | 15,879 | 21,117 | 2,204 | 3,307 | - | 26,628 |
| Miscellaneous | 4,255 | 7,773 | 12,028 | 2,099 | 3,148 | 10 | 17,285 |
| Marketing and public relations | 3,015 | 6,426 | 9,441 | 1,516 | 2,284 | - | 13,241 |
| Telecommunications | 6,240 | 12,246 | 18,486 | 1,614 | 1,495 | 203 | 21,798 |
| Occupancy | 3,654 | 12,587 | 16,241 | 1,894 | 2,436 | - | 20,571 |
| Postage, printing, copying | - | 328 | 328 | 207 | 7,974 | 4,493 | 13,002 |
| Bank charges | - | 108 | 108 | 607 | 10,094 | 1,792 | 12,601 |
| Travel | 1,344 | 112 | 1,456 | 182 | 157 | 1,522 | 3,317 |
| Total functional expenses | <u>\$ 976,456</u> | <u>\$ 216,754</u> | <u>\$ 1,193,210</u> | <u>\$ 194,628</u> | <u>\$ 211,277</u> | <u>\$ 79,053</u> | <u>\$ 1,678,168</u> |

See accompanying notes to financial statements.

ARTIST TRUST
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from contributions, benefit events and grants | \$ 1,823,919 | \$ 2,246,585 |
| Cash received from program income | 300 | 2,127 |
| Cash received from interest | - | 398 |
| Cash paid to employees | (532,599) | (622,260) |
| Cash paid to grantees | (501,125) | (759,610) |
| Cash paid to suppliers | (118,738) | (253,319) |
| Cash paid for interest | (6,671) | (7,206) |
| | 665,086 | 606,715 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Endowment investment distributions | 61,996 | 66,700 |
| Proceeds from sale of securities | 116,339 | 114,933 |
| Purchase of securities | (606,339) | (114,930) |
| Purchases of property and equipment | (20,066) | - |
| | (448,070) | 66,703 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on mortgage note payable | (11,966) | (11,439) |
| | (11,966) | (11,439) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 205,050 | 661,979 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of the year | 1,282,349 | 620,370 |
| End of the year, including restricted | 1,487,399 | 1,282,349 |
| Less restricted cash and cash equivalents held for long-term purposes | (525,172) | (338,226) |
| End of the year | \$ 962,227 | \$ 944,123 |

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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.

Inventory – Inventory primarily consists of donated artwork for Artist Trust's benefit event.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

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.

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 3 to 5 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.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

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 statements 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 Acting Director 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).

Subsequent Events – Subsequent events were evaluated through May 18, 2022 which is the date the financial statements were available to be issued.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Financial Assets | | |
| Cash and cash equivalents | \$ 1,487,399 | \$ 1,282,349 |
| Pledges and grants receivable | 719,899 | 921,568 |
| Investments and assets held in trust | <u>3,515,872</u> | <u>2,796,094</u> |
| Total financial assets | 5,723,170 | 5,000,011 |
| Less those unavailable for general expenditures within one year: | | |
| Receivable balances to be collected in future years | (533,649) | (622,062) |
| Restricted by donors with purpose restrictions | (1,190,683) | (969,877) |
| Restricted by donors with perpetual restrictions | (2,121,720) | (1,631,720) |
| Board designated endowment | (475,124) | (388,193) |
| Board reserve fund (unavailable without Board approval) | <u>(153,354)</u> | <u>(93,354)</u> |
| | (4,474,530) | (3,705,206) |
| Add endowment funds expected to be appropriated for general use: | | |
| Cash from fund expected to be available for use | <u>118,448</u> | <u>86,500</u> |
| Financial assets available within one year | <u>\$ 1,367,088</u> | <u>\$ 1,381,305</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 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, 2021 AND 2020

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, 2021:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------|----------------|----------------|---------------------|---------------------|
| Investments held by Vanguard | \$ - | \$ - | \$ 3,298,068 | \$3,298,068 |
| Assets held in trust | - | - | 217,804 | 217,804 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,515,872</u> | <u>\$ 3,515,872</u> |

The following table summarizes the valuation of Artist Trust’s financial investments and interests under the fair value hierarchy at December 31, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------|----------------|----------------|---------------------|---------------------|
| Investments held by Vanguard | - | - | \$ 2,596,831 | \$ 2,596,831 |
| Assets held in trust | - | - | 199,263 | 199,263 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,796,094</u> | <u>\$ 2,796,094</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>2021</u> | <u>2020</u> |
|-------------------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 2,796,094 | \$ 2,524,743 |
| Additions | 490,000 | - |
| Interest and dividends, net of fees | 56,868 | 36,102 |
| Realized and unrealized gains | 234,906 | 301,949 |
| Distributions | (61,996) | (66,700) |
| Balance, end of year | <u>\$ 3,515,872</u> | <u>\$ 2,796,094</u> |

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
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Note 4 – Pledges and Grants Receivable

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

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Receivable in less than one year | \$ 223,950 | \$ 299,506 |
| Receivable in one to five years | 359,250 | 422,550 |
| Receivable in greater than five years | 236,000 | 295,000 |
| | <u>819,200</u> | <u>1,017,056</u> |
| Less discount to net present value | (61,601) | (75,488) |
| Less allowance for uncollectible pledges | (37,700) | (20,000) |
| | <u>\$ 719,899</u> | <u>\$ 921,568</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 – Conditional Grants

During the year ended December 31, 2020, Artist Trust received notice of two multi-year government grant awards totaling \$40,000, of which no amount was recognized before December 31, 2021. The awards will be received in subsequent years, contingent on Artist Trust's completion of terms and conditions set forth in the grant agreements. As these awards represent conditional promises to give, the awards will not be recognized as revenue until the grantor conditions are met.

Note 6 – Property and Equipment

Property and equipment consist of the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|-------------------|-------------------|
| Condominium | \$ 687,553 | \$ 687,553 |
| Furniture, equipment and software | 38,566 | 18,500 |
| Artwork | 9,300 | 9,300 |
| | <u>735,419</u> | <u>715,353</u> |
| Less accumulated depreciation | (471,410) | (444,782) |
| | <u>\$ 264,009</u> | <u>\$ 270,571</u> |

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
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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, 2021 and 2020. Interest expense totaled \$6,671 and \$7,206 for the years ended December 31, 2021 and 2020, 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:

| | | |
|------------|----|------------|
| 2022 | \$ | 12,582 |
| 2023 | | 13,121 |
| 2024 | | 13,682 |
| 2025 | | 14,268 |
| 2026 | | 14,879 |
| Thereafter | | 82,789 |
| | | \$ 151,321 |

Note 8 – Net Assets without Donor Restrictions – Board Designated

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

| | 2021 | 2020 |
|----------------------------|------------|------------|
| Board Designated Endowment | \$ 475,124 | \$ 388,193 |
| Operating Reserve | 153,354 | 93,354 |
| | \$ 628,478 | \$ 481,547 |

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 9 – Net Assets with Donor Restrictions

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

| | 2021 | 2020 |
|--|--------------|------------|
| Restricted for a specified purpose or passage of time: | | |
| Endowment - unappropriated investment return | \$ 1,190,683 | \$ 969,877 |
| Arts Innovator Award | 500,000 | 550,000 |
| Time Restricted (Other) | 130,500 | 160,950 |
| Time Restricted (Campaign for a Creative Future) | 90,200 | 193,600 |
| Kreielsheimer Artist Trust Fund - unappropriated investment return | 67,804 | 49,263 |
| Benefit Event | 47,400 | 205,040 |
| Vadon Native Fellowship Award | 37,500 | 12,523 |
| SOLA Award | 33,781 | 30,661 |
| Tremaine Statewide Programs | 30,000 | - |
| WAHIP Artist Clinics | 2,575 | 2,575 |
| Filipino Scholarship Fund | 510 | 510 |
| POC Scholarship Fund | 350 | 350 |
| EDGE for Film | 69 | 69 |
| Latino Scholarship Fund | 39 | 39 |
| CERF+ Artist Readiness Project | - | 61,889 |
| Ambassador Project | - | 35,000 |
| Lit GAP | - | 10,000 |
| GAP - Latino Scholarship Fund | - | 3,300 |
| | 2,131,411 | 2,285,646 |

(Continued on next page)

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 9 – Net Assets with Donor Restrictions (Continued)

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Perpetual in nature: | | |
| General Endowment | 1,192,364 | 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 |
| | <u>2,121,720</u> | <u>1,631,720</u> |
| Total net assets with donor restrictions | <u>\$ 4,253,131</u> | <u>\$ 3,917,366</u> |

Note 10 – In-kind Donations

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

| | <u>2021</u> | <u>2020</u> |
|-------------------|-----------------|-------------------|
| Professional fees | \$ 6,516 | \$ 4,108 |
| Auction items | - | 183,065 |
| Printing | - | 803 |
| | <u>\$ 6,516</u> | <u>\$ 187,976</u> |

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

| | <u>2021</u> | <u>2020</u> |
|------------------------|-----------------|-------------------|
| Program | \$ 5,324 | \$ 2,926 |
| Fundraising | 942 | 184,640 |
| Management and general | 250 | 410 |
| | <u>\$ 6,516</u> | <u>\$ 187,976</u> |

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 11 – Endowments

Nature of Endowments and Applicable Laws – The Endowments consist of donor restricted and Board designated 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 are held at 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.

Investment Return Objectives, Risk Parameters and Strategies – The funds are designated under various names and are collectively referred to as the Artist Trust Endowment Fund (the Fund). 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 – The Fund is 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.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 11 – Endowments (Continued)

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, 2021 AND 2020

Note 11 – 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, 12/31/2019 | \$ 388,946 | \$ 755,714 | \$ 1,631,720 | \$ 2,776,380 |
| Contributions | 136,904 | - | - | 136,904 |
| Investment income, net of fees | 1,052 | 35,050 | - | 36,102 |
| Net appreciation | 8,676 | 293,276 | - | 301,952 |
| Amounts appropriated for expenditure | (147,385) | (58,200) | - | (205,585) |
| Distribution from asset held in trust | - | (6,700) | - | (6,700) |
| Endowment net assets, 12/31/2020 | \$ 388,193 | \$ 1,019,140 | \$ 1,631,720 | \$ 3,039,053 |
| Contributions | 81,500 | - | 490,000 | 571,500 |
| Investment income, net of fees | 1,747 | 67,144 | - | 68,891 |
| Net appreciation | 6,169 | 216,343 | - | 222,512 |
| Amounts appropriated for expenditure | (2,485) | (37,140) | - | (39,625) |
| Distribution from asset held in trust | - | (7,000) | - | (7,000) |
| Endowment net assets, 12/31/2021 | \$ 475,124 | \$ 1,258,487 | \$ 2,121,720 | \$ 3,855,331 |

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:

| | 2021 | 2020 |
|------------------------------------|---------------|-------------|
| Gross special events revenue | \$ 112,329 | \$ - |
| Less cost of direct donor benefits | (111,927) | - |
| | <u>\$ 402</u> | <u>\$ -</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 \$11,816 and \$13,260 to the Plan during the years ended December 31, 2021 And 2020, respectively.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
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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 \$336,603 and \$290,330 for the years ended December 31, 2021 And 2020, respectively.

Note 15 – Concentrations

A pledge receivable from one donor made up approximately 72% and 70% of the pledges and grants receivable balance as of December 31, 2021 And 2020, respectively.

Note 16 – Risks and Uncertainties

In December 2019, a novel strain of coronavirus (COVID-19) was reported. 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.

The extent of the impact of the continuing COVID-19 pandemic on Artist Trust’s operations will depend on certain developments, including the duration and spread of future outbreaks and the impact to donors, employees, and Washington State artists, all of which are uncertain and cannot be determined.

Washington State artists were among the first to face career disruption and financial loss from the COVID-19 crisis in 2020, and that disruption and loss continues into 2022. Artist Trust disbursed a second round of the COVID-19 Artist Trust Relief Fund totalling close to \$200,000 to artists in 2021 thanks to the incredible generosity of its donors, who contributed \$100,000 to Artist Trust's matching funds. 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. Artist Trust is currently researching how to continue to support artists as we recover from the pandemic, through a new grant program in 2022 called the Endurance Awards, funded with the release of \$100,000 in Board-restricted funds. In-person statewide outreach efforts will resume in 2022, and Artist Trust will continue to expand its statewide reach through online programming.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 16 – Risks and Uncertainties (Continued)

Donor and community fatigue, shifts to virtual events, and an overwhelming need across sectors, will continue challenge fundraising efforts. However, Artist Trust had a successful fundraising year in 2021 and was able to increase funding to artists through its core grant programs, including the addition of two new Fellowships thanks to a large gift to the Artist Trust endowment from Greg Kucera and Larry Yocom. Artist Trust received a second round of \$123,258 Payroll Protection Program loan funding through the Small Business Administration as part of the CARES Act, which was fully forgiven in 2021 and recorded as a government grant in the statement of activities.

The extent to which the COVID-19 pandemic will further impact Artist Trust going forward will depend on numerous evolving factors that cannot be reasonably predicted, including the duration and scope of the ongoing pandemic; governmental, business, and artists' actions in response; and the impact on economic activity including the possibility of recession or financial market instability. Overall, Artist Trust remains in strong financial position and does not project a cash shortfall in the next fiscal year.