

Consolidated Financial Statements

Arrowmont School of Arts and Crafts

Years Ended December 31, 2022 and 2021

ARROWMONT SCHOOL OF ARTS AND CRAFTS

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SECTION I

INTRODUCTORY SECTION

BOARD OF GOVERNORS AND MANAGEMENT OFFICIALS

Officers

Steve Gottlieb
President

R.B. Summit II
President - elect

Barbara Bullard
Vice President

Shirley Hogan
Treasurer

Janet Harper
Secretary

Members

Jim Bove

Maggie Edwards Bower

Tina Curry

Harry Ford

Susie Glenn

Ted Green

George W. Jones III

Maribel Koella

Lola Harrison Llewellyn

Craig Nutt

Patty Pyle

Deborah Coburn Rice

Steve Thompson

Margit Worsham

Management Officials

Trudy Hughes
Chief Executive Officer

Julia Clinton
Chief Financial Officer

Fran Day
Chief Officer for
Institutional Advancement

SECTION II

FINANCIAL SECTION

PYA
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of
Arrowmont School of Arts and Crafts:

Opinion

We have audited the consolidated financial statements of Arrowmont School of Arts and Crafts (the School), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the School as of December 31, 2022 and 2021, 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 (GAAS) and the standards appliable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters - COVID-19 and New Accounting Standards

As discussed in Note A, the School has continued to be impacted due to the outbreak of the coronavirus disease 2019 (COVID-19). The School had periods of closure and reduced capacity for portions of 2021. Our opinion is not modified with respect to this matter.

As discussed in Note A to the consolidated financial statements, effective January 1, 2022, the School adopted new accounting guidance required by Accounting Standards Codification 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 GAAS and *Government 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 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 consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the School'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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School'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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the Schedule of Expenditures of State and Other Financial Assistance, and the Introductory Section, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, the Schedule of Expenditures of State and Other Financial Assistance, and the Introductory Section are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2023 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PYA, P.C.

Knoxville, Tennessee
August 9, 2023

Consolidated Financial Statements

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Consolidated Statements of Financial Position

	December 31,	
	2022	***2021***
ASSETS		
CURRENT ASSETS		
Cash	**$ 5,408,358**	$ 1,767,233
Promises to give for operations	**21,400**	64,340
Inventory	**64,251**	54,265
Prepaid expenses	**32,978**	25,997
Restricted cash	**3,790,723**	1,627,071
Assets whose use is limited	**277,319**	250,881
Marketable securities	**28,923,113**	38,091,906
Beneficial interest in assets held by others	**216,536**	250,982
Other receivables	**8,139**	700
Other current assets	**4,094**	-
TOTAL CURRENT ASSETS	**38,746,911**	42,133,375
NON-CURRENT ASSETS		
PROPERTY AND EQUIPMENT		
Land	**1,599,125**	1,599,125
Buildings	**13,381,856**	13,245,976
Equipment	**1,184,733**	1,056,469
Furniture and fixtures	**373,761**	373,761
Vehicles	**206,678**	171,202
Leasehold improvements	**703,674**	703,674
Construction in Progress	**16,531**	1,984
	17,466,358	17,152,191
Less: Accumulated depreciation	**7,045,063**	6,445,866
TOTAL PROPERTY AND EQUIPMENT	**10,421,295**	10,706,325
Right-of-use asset, operating lease	**24,518**	-
TOTAL NON-CURRENT ASSETS	**10,445,813**	10,706,325
PROMISES TO GIVE FOR OPERATIONS, net of current portion	**2,100**	129,200
INVESTMENT IN REAL ESTATE PARTNERSHIP	**85,000**	85,000
TOTAL ASSETS	**$ 49,279,824**	$ 53,053,900

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Consolidated Statements of Financial Position - Continued

	December 31, 2022	December 31, 2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 281,323**	$ 303,699
Deferred revenue	**130,968**	178,861
Operating lease liability, current portion- Note J	**15,153**	-
TOTAL CURRENT LIABILITIES	**427,444**	482,560
NON-CURRENT LIABILITIES		
Operating lease liability, less current portion- Note J	**7,994**	-
TOTAL NON-CURRENT LIABILITIES	**7,994**	-
COMMITMENTS AND CONTINGENCIES - Note K		
NET ASSETS		
Without donor restrictions	**24,024,452**	23,355,008
With donor restrictions	**24,819,934**	29,216,332
TOTAL NET ASSETS	**48,844,386**	52,571,340
TOTAL LIABILITIES AND NET ASSETS	**$ 49,279,824**	$ 53,053,900

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended December 31, 2022		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
REVENUE AND SUPPORT:			
Student tuition and fees	**$ 776,336**	**$ -**	**$ 776,336**
Contributions and grants	**778,446**	**3,200,785**	**3,979,231**
Housing and board	**992,069**	**-**	**992,069**
Book store, net of cost of sales of $57,125	**48,659**	**-**	**48,659**
Investment loss, net	**(665,544)**	**(3,788,973)**	**(4,454,517)**
Net loss on beneficial interest in assets held by others	**-**	**(34,447)**	**(34,447)**
Other income	**188,003**	**-**	**188,003**
TOTAL REVENUE AND SUPPORT	**2,117,969**	**(622,635)**	**1,495,334**
NET ASSETS RELEASED FROM RESTRICTIONS:			
Satisfaction of purpose restrictions	**3,646,723**	**(3,646,723)**	**-**
Expiration of time restrictions	**127,040**	**(127,040)**	**-**
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**3,773,763**	**(3,773,763)**	**-**
TOTAL REVENUE, SUPPORT AND NET ASSETS RELEASED	**5,891,732**	**(4,396,398)**	**1,495,334**
EXPENSES:			
Program services:			
Instructional	**2,048,960**	**-**	**2,048,960**
Dining hall and housing	**941,193**	**-**	**941,193**
Gallery and library	**154,991**	**-**	**154,991**
TOTAL PROGRAM SERVICES	**3,145,144**	**-**	**3,145,144**
Support services:			
Administration	**956,088**	**-**	**956,088**
Fundraising and public relations	**815,734**	**-**	**815,734**
Maintenance and other operating	**305,322**	**-**	**305,322**
TOTAL SUPPORT SERVICES	**2,077,144**	**-**	**2,077,144**
TOTAL EXPENSES	**5,222,288**	**-**	**5,222,288**
EXCESS (DEFICIT) OF REVENUE, SUPPORT AND NET ASSETS RELEASED OVER EXPENSES	**669,444**	**(4,396,398)**	**(3,726,954)**
NET ASSETS, BEGINNING OF YEAR	**23,355,008**	**29,216,332**	**52,571,340**
NET ASSETS, END OF YEAR	**$ 24,024,452**	**$ 24,819,934**	**$ 48,844,386**

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Consolidated Statements of Activities and Changes in Net Assets - Continued

	Year Ended December 31, 2021		
	Without Donor Restrictions	***With Donor Restrictions***	***Total***
REVENUE AND SUPPORT:			
Student tuition and fees	$ 329,159	$ -	$ 329,159
Contributions and grants	1,479,073	1,160,820	2,639,893
Housing and board	393,187	-	393,187
Book store, net of cost of sales of $9,458	18,607	-	18,607
Investment gain, net	485,750	2,847,621	3,333,371
Net gain on beneficial interest in assets held by others	-	29,150	29,150
Other income	82,222	-	82,222
TOTAL REVENUE AND SUPPORT	2,787,998	4,037,591	6,825,589
NET ASSETS RELEASED FROM RESTRICTIONS:			
Satisfaction of purpose restrictions	1,429,454	(1,429,454)	-
Expiration of time restrictions	35,144	(35,144)	-
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	1,464,598	(1,464,598)	-
TOTAL REVENUE, SUPPORT AND NET ASSETS RELEASED	4,252,596	2,572,993	6,825,589
EXPENSES:			
Program services:			
Instructional	1,394,379	-	1,394,379
Dining hall and housing	807,218	-	807,218
Gallery and library	82,784	-	82,784
TOTAL PROGRAM SERVICES	2,284,381	-	2,284,381
Support services:			
Administration	605,176	-	605,176
Fundraising and public relations	647,824	-	647,824
Maintenance and other operating	243,342	-	243,342
TOTAL SUPPORT SERVICES	1,496,342	-	1,496,342
TOTAL EXPENSES	3,780,723	-	3,780,723
EXCESS OF REVENUE, SUPPORT AND NET ASSETS RELEASED OVER EXPENSES	471,873	2,572,993	3,044,866
NON-OPERATING OTHER REVENUE - EXTINGUISHMENT OF DEBT	672,883	-	672,883
NET ASSETS, BEGINNING OF YEAR	22,210,252	26,643,339	48,853,591
NET ASSETS, END OF YEAR	$ 23,355,008	$ 29,216,332	$ 52,571,340

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Consolidated Statements of Functional Expenses

	Year Ended December 31, 2022		
	Program	***Support***	***Total***
Salaries and benefits	**$ 916,679**	**$ 1,237,486**	**$ 2,154,165**
Professional services	**211,522**	**150,341**	**361,863**
Supplies	**159,630**	**18,268**	**177,898**
Rent	**25,964**	**18,555**	**44,519**
Repairs and maintenance	**112,097**	**82,210**	**194,307**
Utilities	**149,384**	**29,055**	**178,439**
Advertising	**30,589**	**12,855**	**43,444**
Depreciation and amortization	**505,051**	**94,144**	**599,195**
Other	**1,034,228**	**434,230**	**1,468,458**
	$ 3,145,144	**$ 2,077,144**	**$ 5,222,288**

Consolidated Statements of Functional Expenses - Continued

	Year Ended December 31, 2021		
	Program	***Support***	***Total***
Salaries and benefits	$ 721,037	$ 903,547	$ 1,624,584
Professional services	138,857	100,865	239,722
Supplies	96,318	9,605	105,923
Rent	13,906	12,201	26,107
Repairs and maintenance	99,704	59,350	159,054
Utilities	117,357	24,124	141,481
Advertising	24,944	10,406	35,350
Depreciation and amortization	510,307	74,454	584,761
Other	561,951	301,790	863,741
	$ 2,284,381	$ 1,496,342	$ 3,780,723

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2022	***2021***
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficit) of revenue, support and net assets released over expenses or change in net assets	**$ (3,726,954)**	$ 3,717,749
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**599,195**	584,761
Unrealized (gain) loss on marketable securities	**7,514,100**	(2,606,860)
Realized gain on sales of marketable securities	**(3,059,583)**	(726,511)
Gain on forgiveness of long-term debt	**-**	(672,883)
Changes in operating assets and liabilities:		
Promises to give	**170,040**	57,644
Inventory	**(9,986)**	8,356
Beneficial interest in assets held by others	**34,446**	(29,150)
Prepaid expenses	**(6,981)**	6,764
Other receivables and other current assets	**(11,533)**	(700)
Accounts payable and accrued expenses	**(22,376)**	29,854
Right-of-use operating lease	**(1,371)**	-
Deferred revenue	**(47,893)**	(15,500)
Total adjustments	**5,158,058**	(3,364,225)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,431,104**	353,524
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of marketable securities	**6,364,480**	1,976,355
Purchases of marketable securities	**(1,650,204)**	(8,091,672)
Purchases of property and equipment	**(314,165)**	(669,849)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**4,400,111**	(6,785,166)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	**-**	336,483
NET CASH PROVIDED BY FINANCING ACTIVITIES	**-**	336,483
NET INCREASE (DECREASE) IN CASH	**5,831,215**	(6,095,159)
CASH, BEGINNING OF YEAR	**3,645,185**	9,740,344
CASH, END OF YEAR	**$ 9,476,400**	$ 3,645,185

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Consolidated Statements of Cash Flows - Continued

	Year Ended December 31,	
	2022	***2021***
Reconciliation of cash and cash equivalents on Consolidated Statements of Cash Flows to the Consolidated Statements of Financial Position:		
Cash	**$ 5,408,358**	$ 1,767,233
Restricted cash	**3,790,723**	1,627,071
Assets whose use is limited	**277,319**	250,881
	$ 9,476,400	$ 3,645,185

NOTE A--DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization: Arrowmont School of Arts and Crafts (the School) is a not-for-profit organization, located in Gatlinburg, Tennessee, that provides encouragement, education, and understanding of excellence in creative arts and crafts.

During 2008, the School became the sole corporate member of ASOAC Holdings, LLC, which owns an interest in a real estate investment partnership (Note H). The accompanying consolidated financial statements include the accounts of the School and ASOAC Holdings, LLC. These entities are collectively referred to herein as the School, unless otherwise noted. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation: The consolidated financial statements of the School are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and provide for the accrual basis of accounting. Based on the nature and/or existence of donor restrictions, the School's financial position and activities are reported according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash: The School considers highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Restricted cash includes amounts restricted by donors. These funds are restricted for use in the purchase of the School's campus (Note D), future support of scholarships, the artist-in-residence program, and other specific purposes.

Assets whose use is limited represents cash designated for a specific purpose by the Board of Governors (the Board). These funds are designated for the future support of scholarships, the artist-in-residence program, and other specific purposes.

The School maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, the School may maintain bank account balances in excess of the FDIC insured limit. Management believes the credit risk associated with these deposits is not significant.

Inventory: Inventory, which consists of art supplies and gift shop merchandise, is stated at the lower of cost or net realizable value, determined primarily by the weighted average cost method.

Marketable Securities: The marketable securities portfolio is held and managed by an investment advisor, and investments are reported at fair value (Note B). Investment income, including unrealized gains and losses, is reported as increases in net assets without donor restrictions and net assets with donor restrictions, depending upon donor stipulations.

Property and Equipment: Purchased property and equipment is stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Annual amortization and accumulated amortization of leasehold improvements are included in depreciation and amortization expense and accumulated depreciation, respectively.

Maintenance and repairs are expensed as incurred while betterments are capitalized. Gains or losses from disposition are included in other income. The School reviews property for indicators of potential impairment when changes in circumstances occur. Management believes no such impairment exists as of December 31, 2022 and 2021.

Contributed property and equipment is recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Contributions: Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

Tuition and Boarding Fees: Revenue is recognized as performance obligations are satisfied. Performance obligations are defined as distinct classes and housing and board provided to students while attending classes. Performance obligations are determined based on the nature of the services provided to students and may have terms of several days or longer. Revenue for performance obligations satisfied over time is recognized based on actual fees incurred in relation to the total expected fees. The School does not hold classes near the end of the year, and therefore does not have any partially unsatisfied performance obligations. The school occasionally receives payment for tuition and boarding fees in advance. These fees are reported as deferred revenue and are recognized as revenue when the performance obligations are satisfied.

The School determines the transaction price for tuition and housing and board based on standard charges for the services provided less any explicit price concessions. Explicit price concessions

are discounts provided to students presented on an individual basis. Free or reduced tuition and housing are provided by the School to certain students and faculty in return for professional services provided to the School. The approximate fair value of these professional services was $131,000 and $73,000 for 2022 and 2021, respectively, and was recorded as revenue and expense in the consolidated statements of activities and changes in net assets. The School was impacted in 2021 by the outbreak of the coronavirus disease 2019 (COVID-19). The School canceled classes for a portion of 2021 as a result of COVID-19.

Permanent Traveling Art Collection: The School does not capitalize additions to the traveling art collection and, accordingly, the value of the permanent traveling art collection is not reflected in the accompanying consolidated statements of financial position.

Income Taxes: The School is exempt from federal income taxes as an organization other than a private foundation as described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been made in the accompanying consolidated financial statements. The School has no uncertain tax positions at December 31, 2022 and 2021. At December 31, 2022, tax returns filed for 2019 through 2021 are subject to examination by the Internal Revenue Service.

Excess (Deficit) of Revenue, Support and Net Assets Released Over Expenses: The consolidated statements of activities and changes in net assets include excess (deficit) of revenue, support and net assets released over expenses for the years ended December 31, 2022 and 2021, which is analogous to income or loss from continuing operations for a for-profit enterprise.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expense Allocation: The costs of programs and support expenses are allocated based on estimates of employees' time incurred, usage of resources, and other methods. Expenses include transfers of cash and non-cash assets for their intended purposes, in accordance with the School's mission. Support expenses include expenses that are not directly for identifiable programs but provide for the overall support, maintenance, and direction of the School.

Fair Value Measurements: The School's marketable securities and beneficial interest in assets held by others are recorded at fair value on a recurring basis based upon quoted prices in active markets for identical investments. This basis is a Level 1 priority in the fair value hierarchy as established by GAAP.

The School's investment in a real estate partnership is recorded at fair value as described in Note H. This basis is a Level 3 priority in the fair value hierarchy as established by GAAP.

Recently Adopted Accounting Pronouncements: During the year ended December 31, 2022, the School adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-02, *Leases*, which requires balance sheet recognition of a liability and right-of-use asset for substantially all leases. At the time of adoption, the School elected the practical expedients offered under this standard and did not reassess whether any current or expired contracts are, or contain, leases and did not reassess the classification for any current leases. The School does not apply the recognition requirements of this standard to short-term leases. The lease payments for leases with original terms of twelve months or less are recognized in the period in which they are incurred. The School adopted the requirements of this standard effective January 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption. As such, information presented as of and for the year ended December 31, 2021, does not reflect the application of ASU 2016-02. The adoption of this standard on January 1, 2022, resulted in the recognition of an operating right-of-use asset and lease liability of $35,156. There was no significant impact on the net assets of the School upon the adoption of this standard.

NOTE B--MARKETABLE SECURITIES

Marketable securities are classified as trading securities the cost and fair value (based on quoted market prices) are summarized as follows as of December 31:

	Level 1			
	2022		***2021***	
	Cost	***Fair Value***	***Cost***	***Fair Value***
Marketable securities				
Equity mutual funds	$ 13,304,885	$ 15,165,940	$ 12,550,945	$ 18,881,848
Fixed Income securities	10,555,534	9,400,383	14,459,991	14,485,685
Hedge funds	3,495,497	3,335,833	3,442,196	3,645,123
Tangible assets	1,751,849	1,020,957	309,326	1,079,250
Total marketable securities	$ 29,107,765	$ 28,923,113	$ 30,762,458	$ 38,091,906

The components of investment gain or loss, net, are as follows for the year ended December 31:

	Without Donor Restrictions	***With Donor Restrictions***	***Total***
2022			
Interest and dividends	$ 220,525	$ 707,301	$ 927,826
Net realized gain	276,862	2,000,387	2,277,249
Change in unrealized gain/loss	(1,133,214)	(6,380,886)	(7,514,100)
Management and trust fees	(29,717)	(115,775)	(145,492)
Investment loss, net	$ (665,544)	$ (3,788,973)	$ (4,454,517)

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
2021			
Interest and dividends	$ 193,492	$ 900,212	$ 1,093,704
Net realized loss	(16,482)	(189,858)	(206,340)
Change in unrealized gain/loss	354,063	2,252,797	2,606,860
Management and trust fees	(45,323)	(115,530)	(160,853)
Investment gain, net	$ 485,750	$ 2,847,621	$ 3,333,371

NOTE C--RECEIVABLES FOR UNCONDITIONAL PROMISES TO GIVE

Total receivables for unconditional promises to give for scholarships and operations include the following at December 31, 2022:

	Operations
Receivable in less than one year	$ 21,400
Receivable in one to five years	2,100
Total receivables for unconditional promises to give	$ 23,500

All unconditional promises to give are either restricted for use in future periods or designated for scholarships. Unconditional promises to give are primarily from a private foundation and individual donors.

NOTE D--NET ASSETS AND ENDOWMENTS

Net assets without donor restrictions consisted of the following at December 31:

	2022	*2021*
Undesignated	$ 10,757,735	$ 10,669,420
Quasi board endowment	3,693,288	2,622,968
Board designated reserve funds	9,573,429	10,062,620
Total	$ 24,024,452	$ 23,355,008

Net assets with donor restrictions were available for the following at December 31:

		2022		***2021***
Specific purpose				
Programs	$	4,676,454	$	5,318,706
Maintenance and other		544,907		944,034
Scholarships		6,340,361		7,409,768
Gallery and permanent collection		1,616,020		1,616,020
Operations		11,618,692		13,734,264
Passage of time				
Contributions receivable		23,500		193,540
Total	$	24,819,934	$	29,216,332

The School's endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board of the School has interpreted the state laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the School classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) any subsequent accumulated changes from investment gains or losses of the underlying endowment assets. These amounts are reclassified from net assets with donor restrictions to net assets without donor restrictions once those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by state law.

The School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the School and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.

- Other resources of the School.
- The investment policies of the School.

The changes in endowment net assets for the year ended December 31, is as follows:

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
2022			
Endowment net assets, beginning of year	$ 2,622,968	$ 28,281,342	$ 30,904,310
Contributions	1,108,617	36,975	1,145,592
Investment return:			
Investment income	-	670,929	670,929
Net depreciation realized and unrealized	(38,297)	(4,380,499)	(4,418,796)
Total investment return (loss)	(38,297)	(3,709,570)	(3,747,867)
Appropriation of endowment assets for expenditure	-	(941,709)	(941,709)
Change in beneficial interest held by others	-	29,150	29,150
Endowment net assets, end of year	$ 3,693,288	$ 23,696,188	$ 27,389,476
2021			
Endowment net assets, beginning of year	$ 1,409,380	$ 25,562,128	$ 26,971,508
Contributions	1,281,352	296,425	1,577,777
Investment return:			
Investment income (loss)	(134,618)	784,682	650,064
Net appreciation realized and unrealized	66,854	2,062,939	2,129,793
Total investment return	(67,764)	2,847,621	2,779,857
Appropriation of endowment assets for expenditure	-	(453,982)	(453,982)
Change in beneficial interest held by others	-	29,150	29,150
Endowment net assets, end of year	$ 2,622,968	$ 28,281,342	$ 30,904,310

Return Objectives and Risk Parameters: The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce above average income as compared to the Standard & Poor's 500 index and an intermediate term corporate bond index while assuming a low to moderate level of investment risk.

The School expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places a greater emphasis on fixed income-based investments and equity mutual funds to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The School's spending policy allows for distributions of no more than 4 percent of the average market value of the endowment fund balance of the previous rolling 12 quarters. This is consistent with the School's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide real growth through new gifts and investment return.

Underwater Endowment Funds: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or state law requires the School to retain as a fund of perpetual duration. The School has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater unless otherwise precluded by donor intent or relevant laws and regulations.

As of December 31, 2022, five donor-restricted endowment funds had aggregated original values totaling $115,572, current fair values totaling $108,047 and deficiencies totaling $7,525. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds. No appropriations of these funds were made during 2022.

NOTE E--BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

A portion of the School's endowment investments are held by an external foundation. Assets permanently transferred to an external foundation in which the resource provider names itself as the beneficiary are reported as a beneficial interest in assets held by others and are valued at the fair value of the assets contributed. This value is periodically remeasured, with the changes in value recognized in the consolidated statements of activities and changes in net assets.

Assets held by the East Tennessee Foundation (the Foundation) for the benefit of the School are summarized as follows at December 31:

		2022		2021	
		Aggregate Contributions	Fair Value	Aggregate Contributions	Fair Value
Trabue		$ 50,000	$ 134,289	$ 50,000	$ 155,651
Wallace		30,000	82,247	30,000	95,331
	Total investments	$ 80,000	$ 216,536	$ 80,000	$ 250,982

The restricted income is distributed to the School based on the Foundation's discretion or the applicable spending policy. The School has granted the Foundation variance power, which is defined as the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board of Directors of the Foundation, such restrictions or conditions become, in effect unnecessary, undesirable, impracticable, incapable of fulfillment, or inconsistent with the charitable needs of the community served. Income from the Trabue Endowment is restricted for the artist-in-residence program. Income from the Wallace Endowment is restricted for operations. The value of these endowments is included in net assets with donor restrictions.

NOTE F--RETIREMENT PLAN

The School has a defined contribution retirement plan for eligible employees. The plan allows the School to make a discretionary contribution, the amount of which is determined by the Board each year. Contribution expense totaled $37,083 and $37,989 in 2022 and 2021, respectively.

NOTE G--FUNDRAISING EXPENSE

Fundraising expense totaled $520,797 and $444,916 for 2022 and 2021, respectively. Fundraising expense is included in the fundraising and public relations total reported in the consolidated statements of activities and changes in net assets.

NOTE H--BEQUEST FROM CHARITABLE REMAINDER TRUST

In 2008, the School received a distribution of a 2.4% interest in a real estate partnership, with an estimated fair value of approximately $85,000, from a charitable remainder trust. The donated assets were recorded by the School as contribution revenue without donor restrictions in 2008. The fair value of the donated partnership interest was estimated based on an appraisal of the real estate held by the partnership, discounted to consider the School's minority interest. At December 31, 2022 and 2021, the estimated fair value of the real estate partnership remained $85,000.

NOTE I--AVAILABILITY AND LIQUIDITY

The following represents the School's financial assets at December 31:

	2022	***2021***
Cash and cash equivalents	$ 9,476,400	$ 3,645,185
Marketable securities	28,923,113	38,091,906
Promises to give	23,500	193,540
Other receivables	8,139	700
Beneficial interest in assets held by others	216,536	250,982
Total financial assets	38,647,688	42,182,313
Less:		
Net assets with donor restrictions	24,819,934	29,216,332
Net assets designated by the Board	13,266,717	12,685,588
Financial assets available to meet cash needs for general expenditures within one year	$ 561,037	$ 280,393

The School evaluates operating cash needs on a regular basis to determine the amounts of investments to liquidate to meet cash obligations. The remaining financial assets are invested in accordance with the School's investment policies. The School receives amounts from donors which are required to be used for specific purposes or in specific timeframes and, therefore, are not available for general use. Additionally, the Board has designated assets for certain uses. The Board designated amounts may be re-designated for other purposes or for general use upon Board approval.

NOTE J--LEASES

The School has entered into a non-cancelable lease with a third party for space. The operating lease expense for 2022 was $12,282. Right-of-use assets obtained for a new operating lease in 2022 was $35,156. A discount rate of 7.5% is utilized to calculate the present value of future minimum lease payments. As of December 31, 2022, there is 18 months remaining in the minimum lease term.

The following is a schedule of future minimum lease payments under operating lease agreements:

Year Ending December 31,	
2023	$ 16,376
2024	8,169
Total lease payments	24,545
Less: Present value discount	1,398
Present value of lease obligations	23,147
Less: Current portion	15,153
Long-term lease obligations	$ 7,994

Short term lease expense for 2022 was $41,981.

NOTE K--COMMITMENTS AND CONTINGENCIES

The School maintains professional liability insurance at December 31, 2022, and intends to maintain such coverages in the future. Management is unaware of any outstanding legal claims or pending legal claims at December 31, 2022.

The School maintains a commercial letter of credit with a Bank in the amount of $32,000. The letter of credit allows for payment of utilities in the event of non-payment. The letter of credit originated on June 4, 2014 and matures June 4, 2023. The letter of credit bares a minimum interest rate of 5% and has remained unused during both 2021 and 2022.

NOTE L--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued. During this period, management noted no material recognizable subsequent events that required recognition or disclosure in the December 31, 2022 consolidated financial statements.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

PYA, P.C.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of
Arrowmont School of Arts and Crafts:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Arrowmont School of Arts and Crafts (the School), which comprise the consolidated statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated August 9, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PYA, P.C.

Knoxville, Tennessee
August 9, 2023

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Assistance Listing Number	*Grantor*	*Pass-Through Grantor Agency*	*Pass-Through Grantor's Number*	*Program Name*	*Grant Number (Grant Period)*	*Total Expenditures*
21.027	U.S. Department of Treasury	Tennessee Arts Commission	31625-14996	COVID-19: Coronavirus State and Local Fiscal Recovery Funds	(7/1/2021 - 6/30/2022)	$ 1,968,501
					Total National Endowment for the Arts	1,968,501
					Total Expenditures of Federal Awards	$ 1,968,501

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Schedule of Expenditures of State and Other Financial Assistance

Year Ended December 31, 2022

Assistance Listing Number	*Grantor*	*Pass-Through Grantor Agency*	*Pass-Through Grantor's Number*	*Program Name*	*Grant Number (Grant Period)*	*Total Expenditures*
N/A	Tennessee Arts Commission	N/A	N/A	Arts Program Categorical Services - Major Cultural Institutions	311625-14446 (7/1/2021 - 12/31/2024)	$ 79,000
					Total Tennessee Arts Commission	79,000
					Total Expenditures of State Awards	$ 79,000

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Notes to Schedules of Expenditures of Federal Awards and State and Other Financial Assistance

Year Ended December 31, 2022

NOTE A--BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards and state and other financial assistance include the state and federal grant activity of the School and are presented on the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the consolidated financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

De Minimis Indirect Cost Rate: The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C--CONTINGENCIES

The School's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the School's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Schedule of Findings and Questioned Costs

Year Ended December 31, 2022

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

The auditor's report expressed an unmodified opinion on the consolidated financial statements of Arrowmont School of Arts and Crafts.

Internal control over financial reporting:

Material weaknesses identified?	Yes [ ] No [X]
Significant deficiencies identified?	None reported
Noncompliance material to consolidated financial consolidated statements noted?	Yes [ ] No [X]

FEDERAL AWARDS

The auditor's report on compliance for the major federal award programs for Arrowmont School of Arts and Crafts expressed an unmodified opinion on compliance for major federal programs.

Internal control over major federal programs:

Material weaknesses identified?	Yes [ ] No [X]
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes [X] No [ ]

Identification of Major Programs:

Assistance Listing Number(s)	*Name of Federal Program or Cluster*
21.027	COVID-19- Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes [ ] No [X]

Section II - Financial Statement Findings

None.

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Schedule of Findings and Questioned Costs - Continued

Year Ended December 31, 2022

Section III - Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200 Section 516(a) of the Uniform Guidance (for example, significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Finding 2022-001: (21.027) Unallowable Activities/Allowable Costs and Cost Principals

Criteria: As specified in Section 2 CFR 200.423, General Provisions for Selected Items of Cost-Alcoholic Beverages, costs of alcoholic beverages are unallowable.

Condition: An amount of $329.25 for the purchase of alcoholic beverages was reimbursed to the School with federal funds.

Cause: Certain expenditures were not correctly identified and excluded from reimbursement requests.

Effect: The School was not in compliance with award and federal statutes. The School is potentially subject to federal funding cuts or other punitive actions.

Recommendation: The School should ensure that expenditures are compiled and reviewed to meet the terms and conditions of the award and federal statutes.

Views of Responsible Official(s) and Planned Corrective Actions: See the accompanying "Management's Corrective Action Plan."

ARROWMONT SCHOOL OF ARTS AND CRAFTS

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2022

There were no prior audit findings.

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of
Arrowmont School of Arts and Crafts:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Arrowmont School of Arts and Crafts' (the School) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended December 31, 2022. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the School's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each major federal program is not modified with respect to these matters. *Government Auditing Standards* requires the auditor to perform limited procedures on the School's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2022-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on the School's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the

requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PYA, P.C.

Knoxville, Tennessee
August 9, 2023

ARROWMONT
SCHOOL OF ARTS AND CRAFTS

MANAGEMENT'S CORRECTIVE ACTION PLAN - FISCAL YEAR 2022

Finding 2022-001: (21.027) Unallowable Activities/Allowance Costs and Cost Principals

August 9, 2023

In July 2022, Arrowmont School of Arts and Crafts submitted a request for funds reimbursement under the Arts Recovery Program Grant (federal award #SLFRP5534) through the Tennessee Arts Commission. In the documentation justifying the request, an unallowable expense of $329.25 was included. The staff member who completed the request and the supporting documentation was knowledgeable about the federal regulation excluding alcohol purchases as eligible for reimbursement, however in reviewing and submitting the request, she did not notice that alcohol was included. The line item in error was a VISA bill that contained a purchase that included alcohol.

There are a number of reasons this oversight occurred. The primary reason is human error. At the time the error occurred, Arrowmont had insufficient staff support for the function. There was only one staff member available to complete the request and supporting documentation. In addition to the volume of entries (approximately 1,000), the staff member who had COVID was working from home without access to the full database and on a very short timeline and therefor simply did not see the purchase which was at a restaurant as including alcohol.

Corrective Action. Corrective action has been accomplished, effective April 2023.

The need for grants management support staff has been identified and the position is in process to effectively manage all Arrowmont grants reporting. This position will work closely with the accounting staff to ensure the accuracy of reports and supporting documentation. Working with the accounting staff to review and double check the accuracy of each entry should preclude this error from re-occurring. Protocols include double checking any invoice that contains multiple entries to ensure compliance with financial/accounting and programmatic reporting.

The Chief Officer for Institutional Advancement is responsible for ensuring that future requests and documentation are accurate, that staff are adequately trained, and that reports are checked carefully before submission. The Chief Finance Officer will also participate in grants management oversight to ensure all financial reports are accurate and correct. The Chief

Executive Officer has additional oversight responsibility as necessary for all grants management reporting for Arrowmont.

Upon notification from the auditors that an unallowable expense has been identified, the Chief Officer for Institutional Advancement called the Tennessee Arts Commission and notified them that an error had occurred and requested their guidance on how to proceed. The guidance was to provide the Director of Grants with Tennessee Arts Commission with this memo when corrective action was completed. This memo is being shared with PYA (Arrowmont auditors for 2022) and with Tennessee Arts Commission.

In addition, to correct the $329.25 expense, Arrowmont will prepare and mail a refund check in this amount to Tennessee Arts Commission and will amend the 2022 budget reimbursement and the 2024 available budget reimbursement amounts.

The contact person relative to this corrective action is:
Trudy M. Hughes, Chief Executive Officer
thughes@arrowmont.org
(865) 368-8886

Thank you for the opportunity to submit this information. I welcome your response and direction regarding any further communication as is necessary.

Sincerely,

Trudy M. Hughes
Trudy M. Hughes
Chief Executive Officer