



REGIONAL ARTS & CULTURE COUNCIL

Financial Statements and Supplemental Information

Years Ended June 30, 2013 and 2012



REGIONAL ARTS & CULTURE COUNCIL
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Regional Arts & Culture Council
Portland, Oregon

We have audited the accompanying financial statements of Regional Arts & Culture Council (RACC) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Arts & Culture Council as of June 30, 2013, and the changes in its net assets, functional expenses, and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited RACC's 2012 financial statements, and our report dated September 27, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of agency transactions on page 14 is presented for purposes of additional analysis and is not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

AKT LLP

Lake Oswego, Oregon
October 10, 2013

REGIONAL ARTS & CULTURE COUNCIL

Statements of Financial Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and Cash Equivalents	\$ 327,217	\$ 444,229
Contributions and Contracts Receivable, less allowance for doubtful accounts of \$5,045 (\$6,547 in 2012)	574,590	1,002,088
Interest Receivable	643	686
Prepaid Expenses	66,410	28,868
Note Receivable	294,006	332,910
Investments	4,103,378	4,050,284
Property and Equipment, net	<u>210,948</u>	<u>217,871</u>
	<u>\$ 5,577,192</u>	<u>\$ 6,076,936</u>
LIABILITIES AND NET ASSETS		
Accounts Payable and Accrued Expenses	\$ 242,903	\$ 269,718
Grants Payable	553,419	445,183
Deferred Revenue	2,596,693	2,666,666
Deferred Rent	<u>92,108</u>	<u>71,595</u>
Total Liabilities	<u>3,485,123</u>	<u>3,453,162</u>
Net Assets:		
Unrestricted:		
Undesignated	419,245	354,106
Designated	<u>1,471,918</u>	<u>1,830,537</u>
Total Unrestricted	1,891,163	2,184,643
Temporarily Restricted	<u>200,906</u>	<u>439,131</u>
Total Net Assets	<u>2,092,069</u>	<u>2,623,774</u>
	<u>\$ 5,577,192</u>	<u>\$ 6,076,936</u>

REGIONAL ARTS & CULTURE COUNCIL

Statements of Activities and Changes in Net Assets

Years Ended June 30, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Total</u>	<u>2012 Total (Memo Only)</u>
Support and Revenue:				
Contributions and grants	\$ 453,073	\$ 5,904	\$ 458,977	\$ 730,287
Contract services	6,310,199	-	6,310,199	7,157,750
Interest and dividend income	97,692	-	97,692	100,941
Interest from note receivable	14,454	-	14,454	12,997
Net unrealized and realized gains on investments	138,178	-	138,178	29,482
Special events, net of expenses of \$86,331 in 2013 and \$0 in 2012.	(8,870)	-	(8,870)	18,857
Other revenue	13,159	-	13,159	5,098
Net assets released from restrictions - satisfaction of program restrictions	<u>244,129</u>	<u>(244,129)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>7,262,014</u>	<u>(238,225)</u>	<u>7,023,789</u>	<u>8,055,412</u>
Expenses:				
Program services:				
Advocacy	483,742	-	483,742	335,739
Grants	2,999,469	-	2,999,469	2,834,807
Public art	1,801,497	-	1,801,497	2,130,646
Community services	518,498	-	518,498	468,583
Arts education	<u>834,983</u>	<u>-</u>	<u>834,983</u>	<u>748,270</u>
Total Program Services	6,638,189	-	6,638,189	6,518,045
Supporting services - management and general	<u>917,305</u>	<u>-</u>	<u>917,305</u>	<u>1,054,949</u>
Total Expenses	<u>7,555,494</u>	<u>-</u>	<u>7,555,494</u>	<u>7,572,994</u>
Change in Net Assets	(293,480)	(238,225)	(531,705)	482,418
Net Assets, beginning	<u>2,184,643</u>	<u>439,131</u>	<u>2,623,774</u>	<u>2,141,356</u>
Net Assets, ending	<u>\$ 1,891,163</u>	<u>\$ 200,906</u>	<u>\$ 2,092,069</u>	<u>\$ 2,623,774</u>

See accompanying notes to financial statements.

REGIONAL ARTS & CULTURE COUNCIL**Statements of Functional Expenses**

Years Ended June 30, 2013 and 2012

	<u>Advocacy</u>	<u>Grants</u>	<u>Public Art</u>	<u>Community Services</u>
Program Services:				
Grants	\$ -	\$ 2,728,157	\$ -	\$ 106,317
Artist fees and services	4,140	-	1,209,837	150
Professional services	<u>63,937</u>	<u>42,242</u>	<u>36,177</u>	<u>203,015</u>
Total Program Services	<u>68,077</u>	<u>2,770,399</u>	<u>1,246,014</u>	<u>309,482</u>
Supporting Services:				
Salaries and benefits	294,899	167,262	408,579	136,480
Other professional services	-	-	-	-
Supplies	5,411	70	6,645	608
Telephone	480	-	-	-
Postage and shipping	1,876	397	629	7,864
Rent and utilities	-	-	2,358	-
Insurance	-	-	-	-
Equipment maintenance	4,031	-	805	-
Equipment	854	723	1,650	-
Printing and advertising	9,308	88	905	19,185
Transportation	2,871	93	8,550	4,471
Conferences and meetings	2,804	4,071	3,366	4,637
Dues and subscriptions	8,050	3,476	5,336	1,935
Depreciation	880	-	-	-
Management and general allocation	<u>84,201</u>	<u>52,890</u>	<u>116,660</u>	<u>33,836</u>
Total Supporting Services	<u>415,665</u>	<u>229,070</u>	<u>555,483</u>	<u>209,016</u>
Total Expense	\$ <u><u>483,742</u></u>	\$ <u><u>2,999,469</u></u>	\$ <u><u>1,801,497</u></u>	\$ <u><u>518,498</u></u>

Arts Education	Total Program Services	Management and General	2013 Total	2012 Total (Memo Only)
\$ -	\$ 2,834,474	\$ 15,000	\$ 2,849,474	\$ 2,621,268
165,235	1,379,362	1,053	1,380,415	1,619,276
<u>343,940</u>	<u>689,311</u>	<u>49,033</u>	<u>738,344</u>	<u>834,758</u>
<u>509,175</u>	<u>4,903,147</u>	<u>65,086</u>	<u>4,968,233</u>	<u>5,075,302</u>
233,302	1,240,522	829,237	2,069,759	1,973,722
-	-	598	598	2,644
708	13,442	8,694	22,136	28,362
180	660	22,505	23,165	26,696
856	11,622	1,859	13,481	17,480
-	2,358	207,216	209,574	183,990
-	-	7,845	7,845	6,963
1,926	6,762	15,121	21,883	22,868
626	3,853	16,002	19,855	17,334
6,563	36,049	3,750	39,799	52,084
5,167	21,152	11,421	32,573	37,540
7,231	22,109	14,632	36,741	44,253
2,634	21,431	21,798	43,229	27,807
-	880	45,743	46,623	55,949
<u>66,615</u>	<u>354,202</u>	<u>(354,202)</u>	<u>-</u>	<u>-</u>
<u>325,808</u>	<u>1,735,042</u>	<u>852,219</u>	<u>2,587,261</u>	<u>2,497,692</u>
\$ <u>834,983</u>	\$ <u>6,638,189</u>	\$ <u>917,305</u>	\$ <u>7,555,494</u>	\$ <u>7,572,994</u>

See accompanying notes to financial statements.

REGIONAL ARTS & CULTURE COUNCIL

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Cash received from contractors, grantors, sales, and fees	\$ 7,160,407	\$ 7,668,013
Interest received from investments	97,735	100,813
Interest received from note receivable	14,454	12,997
Cash paid to artists, suppliers, and employees	<u>(7,464,992)</u>	<u>(7,539,702)</u>
Net Cash Provided (Used) by Operating Activities	<u>(192,396)</u>	<u>242,121</u>
Cash Flows from Investing Activities:		
Purchase of equipment and improvements	(9,700)	(195,082)
Proceeds from investments	85,084	-
Purchases of investments	<u>-</u>	<u>(10,418)</u>
Net Cash Provided (Used) by Investing Activities	<u>75,384</u>	<u>(205,500)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(117,012)	36,621
Cash and Cash Equivalents, beginning	<u>444,229</u>	<u>407,608</u>
Cash and Cash Equivalents, ending	<u>\$ 327,217</u>	<u>\$ 444,229</u>
Reconciliation of Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in net assets	\$ (531,705)	\$ 482,418
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	46,623	55,949
Net realized and unrealized gain on investments	(138,178)	(29,482)
In-kind capital asset contribution	(30,000)	-
Changes in assets and liabilities:		
Contributions and contracts receivable	427,498	(145,200)
Note receivable	38,904	17,090
Interest receivable	43	(128)
Prepaid expenses	(37,542)	50,008
Accounts payable and accrued expenses	(26,815)	(57,261)
Grants payable	108,236	(15,404)
Deferred revenue	(69,973)	(187,464)
Deferred rent	<u>20,513</u>	<u>71,595</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (192,396)</u>	<u>\$ 242,121</u>

See accompanying notes to financial statements.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

Note 1 - Organization

The Regional Arts & Culture Council (RACC) is an independent, Oregon not-for-profit 501(c)(3) organization that provides services in Clackamas, Multnomah, and Washington Counties. Through vision, leadership and service, the Regional Arts & Culture Council works to integrate arts and culture in all aspects of community life.

A majority of RACC's funding is provided by a contract with the City of Portland, which provided 69% of total support and revenues in 2013 (69% in 2012). Other local public funders include Multnomah, Clackamas, and Washington Counties, and Metro, which provided a combined 8% (12% in 2012), including agency transactions. From the private sector, RACC's workplace giving program provided 5% of total revenues in 2013 (6% in 2012). Donations from businesses, foundations and individuals supporting RACC's arts education program accounted for 2% (5% in 2012).

RACC's service area includes more than 1.5 million residents, 250 not-for-profit arts and culture organizations, and countless artists of every discipline. Programs include:

- Advocacy - RACC works at the local, state, and national levels to build awareness, support, and resources for arts and culture. RACC convenes forums to promote the importance of arts and culture, and produces research to help illustrate their impact. RACC also conducts a workplace giving program ("Work for Art") that introduces thousands of employees to our local arts community and generates contributions for the region's arts and cultural organizations. More than \$761,000 was pledged in the campaign ending June 30, 2013 (\$822,000 for 2012).
- Grants - RACC distributed approximately \$3,300,000 in grant funds in 2013, serving 161 individual artists and 150 arts organizations in the Portland tri-county area. The amount distributed includes amounts received in grants as well as those considered agency transactions. About 93 local artists and community representatives serve on panels each year to help assess the artistic merit, community service, and fiscal responsibility of the applicants.
- Public Art - RACC's nationally acclaimed Public Art program, now in its 33rd year, includes ordinances for the City of Portland and Multnomah County's 2% "Percent for Art" programs. RACC also manages a Community Murals Program, temporary and performance-based public art, a collection of two-dimensional works in the Visual Chronicle of Portland, and a series of artist residencies in public agencies. RACC also provides public art contracting services for a variety of local and national agencies, both public and private.
- Community Services - RACC conducts workshops for artists and provides organizational consulting services for emerging and mid-sized arts organizations. RACC provides a wide range of information services for local artists and arts administrators including free informative newsletters in printed and electronic form serving more than 11,400 area residents per month. The RACC website (www.racc.org) contains opportunities for artists (grants, residencies, jobs, competitions, commissions, etc.), an online cultural calendar of RACC-funded events in the community, and other important information of interest to the local arts and culture community.
- Arts Education – RACC serves as managing partner for The Right Brain Initiative, a comprehensive solution to integrate the arts into the education of every K-8 student in the Portland metropolitan area school districts. In its fifth year of implementation, the initiative served 11,460 students and 813 teachers and principals from 44 schools in six school districts.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies

Net Assets

Net assets and transactions are presented according to the existence or absence of donor-imposed restrictions:

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations. Board designated funds are considered unrestricted net assets.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that will be met by the actions of RACC and/or the passage of time.
- Donor-imposed restricted contributions are reported as unrestricted net assets for those contributions where the donor stipulation is satisfied in the same reporting period in which the contribution is received.

Cash and Cash Equivalents

RACC considers all highly liquid investment securities purchased with a maturity of 3 months or less to be cash equivalents. RACC maintains its cash in bank deposits that, at times, may exceed federally insured limits, which is generally \$250,000 per account holder per bank.

RACC had \$164,977 in uninsured cash in deposit accounts as of June 30, 2013 (none as of June 30, 2012). RACC has not experienced any losses in such accounts and has taken adequate measures to limit exposure to any significant risk on cash and cash equivalents.

Investments

Investments consist of money market funds, certificates of deposit, highly liquid discount bonds, and marketable securities which are carried at fair value, which is the current market value. RACC's money market funds are reinvested into marketable securities.

Investments are stated at fair value based on a framework that provides a fair value hierarchy prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). RACC's marketable securities are measured and reported at fair value on a recurring basis based on quoted prices available in active markets for identical investments as of the reporting date (Classification Level 1).

Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities and Changes in Net Assets.

Contributions and Contracts Receivable

Contributions and contracts receivable are recorded net of any estimated allowance for uncollectible amounts. The allowance for uncollectible accounts is maintained based upon management's review of the year-end accounts receivable aging and collection history. The allowance was \$5,045 as of June 30, 2013 (\$6,547 in 2012). As of June 30, 2013 and 2012, all contributions receivable are due to be collected in 12 months or less.

Property and Equipment

RACC capitalizes property and equipment purchases over \$3,500. Property and equipment are carried at cost, or at estimated fair value when acquired by gift. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets, which is 3 to 5 years for office and computer equipment and the shorter of the lease term or estimated useful life of the leasehold improvements, which is 6 years.

Grants Payable

Funds encumbered for grants to organizations or individuals are recognized as expenses when the Board of Directors approves the grants, rather than when grantees meet grant contract requirements. Over 98% of the grant encumbrances are eventually paid.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies, continued

Deferred Revenue

Deferred revenue represents funds received in advance for services to be provided under contracts with local governments and other organizations.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received and reported as unrestricted or temporarily restricted support, depending on the existence or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

RACC reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. When explicit donor stipulations about how long those long-lived assets must be maintained are absent, RACC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Donated services and in-kind contributions of materials and equipment are recorded where there is an objective basis upon which to value these contributions and where the services are an essential part of RACC's activities. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue Recognition - Contract Services

Service revenues are recognized at the time services are provided. Revenues and earnings on cost reimbursement and fixed price contracts are generally recognized when the expense is incurred. Changes to estimated contract costs or losses, if any, are recognized in the period they are determined. Amounts received in excess of revenues recognized to date are classified as deferred revenue.

RACC's funding arrangements with the City of Portland, the counties of Multnomah, Washington, and Clackamas, Metro, and the Oregon Arts Commission are considered fee-for-service contractual relationships.

Through the City of Portland and Multnomah County, RACC receives a 2% "Percent for Art" assessment made against major construction projects undertaken by these governments. These assessments represent, and are recognized, in the following manner:

- 1.26% of the assessment is used to underwrite artistic fees and direct artistic costs and is recognized ratably in proportion to the payments made to artists, generally in increments of one-third.
- .54% of the assessment is used for administrative support costs and is generally recognized at the time the first contract payment is made to the project's artist.
- .20% of assessment is used for the general maintenance of all public art works, and is recognized at the time the first payment is made to the artist.

The City of Portland also makes special grant allocations to other arts organizations within the Portland area through RACC. The amount and recipients of these special allocations vary from year to year. RACC acts as an intermediary for the City of Portland and the designated entity in these situations, and as such, does not recognize a contribution when the assets are received. RACC recognizes these amounts as "pass-through" or "agency" transactions in accordance with appropriate accounting standards.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies, continued

In-Kind Donations

In-kind donations are recorded as contributions at their fair market value at the time of donation with a corresponding charge to expense or fixed assets as appropriate. Major in-kind contributions included the following:

	2013	2012
Meeting spaces & luncheon	\$ 15,928	\$ 12,160
Outreach Activities	5,686	-
Advertising	3,593	-
Framing & printing	4,142	6,170
Equipment & supplies	34,720	3,140

RACC recognizes the fair value of contributed services received if such services require specialized skills that are provided by individuals possessing those skills and would typically be purchased if not contributed. During 2013, contributed services consisted of legal, marketing, conservation, IT consulting, and accounting services in the amount of \$10,052. During 2012, contributed services consisted of legal, marketing, conservation, and accounting services in the amount of \$19,694.

Functional Allocation of Expenses

The costs of program activities and management services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

RACC uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. 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 during the reporting period. Actual results could differ from those estimates.

Income Taxes

RACC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In any year in which the Organization has gross receipts from unrelated business activities of \$1,000 or more, it must file form 990-T with the Internal Revenue Service and pay tax on such income, less any related deductions. There was no such income in the years ending June 30, 2013 or 2012.

RACC follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position would not be sustained if examined by a taxing authority. Management has determined that RACC has no uncertain tax positions as of June 30, 2013 and 2012.

RACC files informational and income tax returns in the United States, the state and in local jurisdictions. With few exceptions, RACC is no longer subject to U.S. Federal, state or local tax examination by tax authorities for years before 2009.

Comparative Financial Information

The 2012 total columns on the statements of activities and changes in net assets and statements of functional expenses are captioned "Memo Only" to indicate that they are presented only to facilitate financial analysis.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies, continued

Comparative Financial Information, continued

Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with RACC's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Subsequent Events

RACC has evaluated subsequent events through October 10, 2013, which is the date the financial statements were available to be issued.

Note 3 - Fair Value of Investments

RACC's investments consist of money market funds, certificates of deposit, US treasury funds, government funds, corporate bonds, municipal bonds, and domestic equities, and are all Classification Level 1 reported at fair value. They are primarily purchased through brokerage accounts.

Investments at June 30 consisted of the following:

	2013	2012
Cash	\$ 164,194	\$ 149,740
Certificate of Deposits	887,728	886,790
Government Bonds	1,323,443	1,008,738
US Treasuries	95,977	197,016
Municipal Bonds	45,195	45,668
Corporate Bonds	700,216	918,025
Domestic Equities	886,626	844,307
	<u>\$ 4,103,379</u>	<u>\$ 4,050,284</u>

Investment return is summarized at June 30 as follows:

	2013	2012
Interest & Dividend Income	\$ 97,692	\$ 100,941
Net Realized and Unrealized Gain	138,178	29,482
	<u>\$ 235,870</u>	<u>\$ 130,423</u>

Note 4 - Property and Equipment

Property and equipment consist of the following:

	2013	2012
Office and Computer Equipment	\$ 256,456	\$ 216,756
Leasehold Improvements	79,871	79,871
Less: Accumulated Depreciation	<u>(125,379)</u>	<u>(78,756)</u>
	<u>\$ 210,948</u>	<u>\$ 217,871</u>

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

Note 5 - Unrestricted Net Assets, Designated

Unrestricted net assets have no donor-imposed restrictions; however, certain unrestricted funds have been designated by the Board of Directors for programs within the departments listed below. These designations can be released at any time with Board approval.

	<u>2013</u>	<u>2012</u>
Education	\$ 32,241	\$ 126,235
Grants and Community Programs	748,734	920,255
Advocacy	24,128	38,587
Public Art	578,390	621,693
Administration	88,425	123,767
	<u>\$ 1,471,918</u>	<u>\$ 1,830,537</u>

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Education	\$ 16,482	\$ 180,470
Grants and Community Programs	113,611	163,867
Professional Development	275	-
Public Art	43,038	42,294
Project Grants	2,500	2,500
Cultural Leadership Program	25,000	50,000
	<u>\$ 200,906</u>	<u>\$ 439,131</u>

Note 7 - Retirement Plan

RACC provides a 401k retirement savings plan (the Plan) to all qualified employees. RACC's contribution to the Plan is based on a percentage of the employee's salary as established annually by the Board of Directors. All contributions are immediately vested. Participants direct the investments of the funds contributed on their behalf. Total contributions by RACC to the Plan were \$93,156 for the year ended June 30, 2013 (\$88,494 for the year ended June 30, 2012).

The Plan also allows employees to defer a portion of their salary as additional funds for retirement. Employees may elect to contribute up to one-sixth of their salary to the Plan, up to the maximum allowed under the IRS.

Note 8 - Note Receivable

During 2011, RACC loaned \$350,000 to the landlord of their new office space for the purpose of remodeling tenant improvements. Prior to October 1, 2011 the remodel was completed, and RACC moved into the new space. Beginning October 1, 2011, the note receivable will be repaid to RACC via 92 monthly rent reductions of \$4,851 which represent an implied interest rate of 5%. The note receivable is decreased by the principal portion of each \$4,851 payment and the remaining portion of the rent reductions is recognized as interest income. Collectability of the receivable is not a significant concern. Future lease commitments disclosed in Note 9 represent the gross lease expense and will be offset with the future rent reductions noted above. The note receivable balance was \$ 294,006 for the year ended June 30, 2013 (\$332,910 for the year ended June 30, 2012).

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

Note 9 - Lease Commitments

RACC leases its offices under an 8-year operating lease which expires July 2019. Facility rent expense was \$209,574 for the year ended June 30, 2013 (\$180,504 in 2012). Future lease commitments displayed below will be reduced by amounts receivable from the lessor, as discussed in Note 8.

At June 30, 2013, future annual lease commitments are as follows:

2014	\$	189,526
2015		213,031
2016		219,235
2017		225,868
2018		232,924
Thereafter		219,052

RACC's lease commitment includes an escalating rent schedule. In accordance with accounting principles generally accepted in the United States of America rent expense is required to be recognized on a straight line basis over the term of the lease. As a result, \$92,108 as of June 30, 2013 and \$71,595 as of June 30, 2012 of rent deferred to future years has been recognized as a liability in the statement of financial position.

RACC leases office equipment under operating leases with IKON Financial Services. The current leases end in March 2015 and November 2015. Rent expense under these lease agreements was \$12,258 for the year ended June 30, 2013 (\$12,258 for the year ended June 30, 2012).

At June 30, 2013, future annual lease commitments for the copiers are as follows:

2014	\$	12,258
2015		9,516
2016		376

Note 10 - Contingencies

Amounts received or receivable under RACC's governmental contracts are subject to audit and adjustment. Any expenditures or claims disallowed as a result of such audits would become a liability against RACC's unrestricted net assets. In the opinion of RACC's management, any adjustments that might result from such audits would not be material to RACC's overall financial statements.

Note 11 – Arts Education & Access Fund

In November of 2012, 62% of Portland voters approved an Arts Education & Access Fund (AEAF); an income tax that generates revenues for arts education and access in the City of Portland. The tax is expected to raise approximately \$10 million a year. Collections costs are capped at 5%, and an estimated \$6.7 million of the net revenue is designated for schools to pay for certified arts specialists at every K-8 school at a rate of 1 teacher for every 500 students, starting in the fall of 2013. The remaining balance flows to RACC to make additional investments in arts education and access. RACC is expected to receive its first allocation from the AEAF in April of 2014, and may use up to 3% of all net revenues for arts education coordination staff and services. The bulk of RACC's allocation is intended to fund "general operating support" organizations at up to 5% of their eligible annual income; the remainder is for grants to support additional education and access programs in the arts.

SUPPLEMENTAL INFORMATION

REGIONAL ARTS & CULTURE COUNCIL

Schedule of Agency Transactions

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Contributions and Grants Revenue	\$ 458,977	\$ 730,287
Agency Transactions*		
Work for Art Donor Designations	<u>238,138</u>	<u>225,869</u>
Total Contributions and Agency Transactions	<u>\$ 697,115</u>	<u>\$ 956,156</u>
Contract Services Revenue	\$ 6,310,199	\$ 7,157,750
Agency Transactions*		
Clackamas County Arts Action Alliance	20,000	25,000
Creative Advocacy Network	-	150,000
Oregon Symphony in the Parks	192,000	200,000
Portland Art Museum - Energy Efficiency Retrofit	-	100,000
PCPA Foundation- Fund Development Consultant	<u>-</u>	<u>50,000</u>
Total Contract Services and Agency Transactions	<u>\$ 6,522,199</u>	<u>\$ 7,682,750</u>

* Agency transactions are transactions in which the Regional Arts & Culture Council (RACC) is acting as an agent, trustee, or intermediary, helping donors make contributions to another designated entity or individual. When acting in this capacity, RACC does not recognize a contribution when it receives the assets per ASC 958-605-25-24. As such, RACC recognizes these amounts as "pass-through" or agency transactions.