



REGIONAL ARTS & CULTURE COUNCIL

Financial Statements and Supplemental Information

Years Ended June 30, 2015 and 2014



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REGIONAL ARTS & CULTURE COUNCIL
Financial Statements and Supplemental Information
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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, 2015, 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 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, 2015, 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 2014 financial statements, and our report dated October 15, 2014, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

5665 SW MEADOWS ROAD, SUITE 200, LAKE OSWEGO, OR 97035

PHONE: 503.620.4489 FAX: 503.624.0817

PORTLAND, OR | SALEM, OR | CARLSBAD, CA | ESCONDIDO, CA | SAN DIEGO, CA | ANCHORAGE, AK
AKT LLP

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 17 is presented for the purposes of additional analysis and is not a required part of the 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 audit 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
November 24, 2015

REGIONAL ARTS & CULTURE COUNCIL

Statements of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Cash Equivalents	\$ 2,149,315	\$ 1,692,039
Contributions and Contracts Receivable, less allowance for doubtful accounts of \$5,193 (\$7,451 in 2014)	534,033	806,362
Interest Receivable	647	646
Prepaid Expenses	59,785	66,180
Note Receivable	206,630	253,218
Annuity Receivable	351,866	-
Investments	3,627,837	3,910,155
Property and Equipment, net	<u>273,371</u>	<u>233,764</u>
	<u>\$ 7,203,484</u>	<u>\$ 6,962,364</u>
LIABILITIES AND NET ASSETS		
Accounts Payable and Accrued Expenses	\$ 301,276	\$ 161,257
Grants Payable	547,311	417,680
Deferred Revenue	3,341,702	3,611,900
Deferred Rent	<u>99,538</u>	<u>107,152</u>
Total Liabilities	<u>4,289,827</u>	<u>4,297,989</u>
Net Assets:		
Unrestricted:		
Undesignated	356,513	445,811
Designated	<u>1,676,730</u>	<u>1,526,870</u>
Total Unrestricted	2,033,243	1,972,681
Temporarily Restricted	<u>880,414</u>	<u>691,694</u>
Total Net Assets	<u>2,913,657</u>	<u>2,664,375</u>
	<u>\$ 7,203,484</u>	<u>\$ 6,962,364</u>

See accompanying notes to financial statements.

REGIONAL ARTS & CULTURE COUNCIL

Statements of Activities and Changes in Net Assets

Years Ended June 30, 2015 and 2014

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2015 <u>Total</u>	2014 Total <u>(Memo Only)</u>
Support and Revenue:				
Contributions and grants	\$ 706,097	\$ 198,644	\$ 904,741	\$ 1,159,617
Contract services	8,126,159	-	8,126,159	5,845,858
Interest and dividend income	86,443	-	86,443	86,917
Interest from note receivable	11,621	-	11,621	15,021
Net unrealized and realized gains on investments	32,862	-	32,862	150,297
Special events, net of expenses of \$5,842 in 2015 and \$0 in 2014	21,228	-	21,228	-
Other revenue	23,555	-	23,555	25,820
Net assets released from restrictions - satisfaction of program restrictions	<u>9,924</u>	<u>(9,924)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>9,017,889</u>	<u>188,720</u>	<u>9,206,609</u>	<u>7,283,530</u>
Expenses:				
Program Services:				
Advocacy	379,879	-	379,879	394,392
Grants	4,726,553	-	4,726,553	2,899,560
Public art	1,379,314	-	1,379,314	1,177,920
Community services	435,940	-	435,940	420,631
Arts education	<u>940,105</u>	<u>-</u>	<u>940,105</u>	<u>803,092</u>
Total Program Services	7,861,791	-	7,861,791	5,695,595
Supporting Services - Management and General Fundraising	<u>1,013,069</u>	<u>-</u>	<u>1,013,069</u>	<u>874,196</u>
	<u>82,467</u>	<u>-</u>	<u>82,467</u>	<u>141,433</u>
Total Expenses	<u>8,957,327</u>	<u>-</u>	<u>8,957,327</u>	<u>6,711,224</u>
Change in Net Assets	60,562	188,720	249,282	572,306
Net Assets, beginning	<u>1,972,681</u>	<u>691,694</u>	<u>2,664,375</u>	<u>2,092,069</u>
Net Assets, ending	<u>\$ 2,033,243</u>	<u>\$ 880,414</u>	<u>\$ 2,913,657</u>	<u>\$ 2,664,375</u>

See accompanying notes to financial statements.

REGIONAL ARTS & CULTURE COUNCIL

Statements of Functional Expenses

Years Ended June 30, 2015 and 2014

	<u>Advocacy</u>	<u>Grants</u>	<u>Public Art</u>	<u>Community Services</u>
Program Services:				
Grants	\$ -	\$ 4,386,114	\$ -	\$ 3,000
Artist fees and services	7,925	-	765,345	100
Professional services	<u>39,452</u>	<u>123,334</u>	<u>63,520</u>	<u>190,330</u>
 Total Program Services	 <u>47,377</u>	 <u>4,509,448</u>	 <u>828,865</u>	 <u>193,430</u>
Supporting Services:				
Salaries and benefits	238,439	160,071	414,217	165,904
Other professional services	-	-	-	-
Supplies	1,329	-	6,251	728
Telephone	399	-	-	-
Postage and shipping	1,826	63	745	7,902
Rent	-	-	2,248	-
Insurance	-	-	-	103
Equipment maintenance	3,997	75	763	-
Equipment	-	-	144	-
Printing and advertising	8,058	121	2,067	18,567
Transportation	2,064	111	9,154	1,835
Conferences and meetings	3,297	5,109	2,867	3,911
Dues and subscriptions	7,736	5,451	1,915	2,829
Depreciation	1,720	-	-	-
Management and general allocation	<u>63,637</u>	<u>46,104</u>	<u>110,078</u>	<u>40,731</u>
 Total Supporting Services	 <u>332,502</u>	 <u>217,105</u>	 <u>550,449</u>	 <u>242,510</u>
 Total Expense	 <u>\$ 379,879</u>	 <u>\$ 4,726,553</u>	 <u>\$ 1,379,314</u>	 <u>\$ 435,940</u>

Arts Education	Total Program Services	Management and General	Fundraising	2015 Total	2014 Total (Memo Only)
\$ -	\$ 4,389,114	\$ -	\$ -	\$ 4,389,114	\$ 2,622,579
255,667	1,029,037	202	-	1,029,239	805,379
<u>325,789</u>	<u>742,425</u>	<u>64,314</u>	<u>2,152</u>	<u>808,891</u>	<u>713,794</u>
<u>581,456</u>	<u>6,160,576</u>	<u>64,516</u>	<u>2,152</u>	<u>6,227,244</u>	<u>4,141,752</u>
230,082	1,208,713	883,717	61,965	2,154,395	2,037,876
-	-	5,498	-	5,498	4,646
977	9,285	10,415	-	19,700	18,257
-	399	19,383	-	19,782	17,488
1,390	11,926	1,885	-	13,811	13,912
-	2,248	232,448	-	234,696	216,008
-	103	9,628	-	9,731	8,557
-	4,835	12,861	1,013	18,709	25,335
-	144	10,821	-	10,965	13,192
6,600	35,413	3,132	1	38,546	30,140
5,976	19,140	13,202	898	33,240	30,839
33,713	48,897	19,117	219	68,233	65,649
1,441	19,372	16,286	190	35,848	29,979
18,000	19,720	47,209	-	66,929	57,594
<u>60,470</u>	<u>321,020</u>	<u>(337,049)</u>	<u>16,029</u>	<u>-</u>	<u>-</u>
<u>358,649</u>	<u>1,701,215</u>	<u>948,553</u>	<u>80,315</u>	<u>2,730,083</u>	<u>2,569,472</u>
\$ <u>940,105</u>	\$ <u>7,861,791</u>	\$ <u>1,013,069</u>	\$ <u>82,467</u>	\$ <u>8,957,327</u>	\$ <u>6,711,224</u>

REGIONAL ARTS & CULTURE COUNCIL

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Cash received from contractors, grantors, sales, and fees	\$ 8,764,922	\$ 7,810,562
Interest received from investments	86,442	86,914
Interest received from note receivable	11,621	15,021
Cash paid to artists, suppliers, and employees	<u>(8,614,353)</u>	<u>(6,870,785)</u>
Net Cash Provided by Operating Activities	<u>248,632</u>	<u>1,041,712</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(106,536)	(20,410)
Proceeds from investments	375,000	400,000
Purchases of investments	<u>(59,820)</u>	<u>(56,483)</u>
Net Cash Provided by Investing Activities	<u>208,644</u>	<u>323,107</u>
Net Increase in Cash and Cash Equivalents	457,276	1,364,819
Cash and Cash Equivalents, beginning	<u>1,692,039</u>	<u>327,217</u>
Cash and Cash Equivalents, ending	<u>\$ 2,149,315</u>	<u>\$ 1,692,036</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in net assets	\$ 249,282	\$ 572,306
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,929	57,594
Net realized and unrealized gains on investments	(32,862)	(150,297)
In-kind capital asset contribution	-	(60,000)
Changes in operating assets and liabilities:		
Contributions and contracts receivable	272,329	(231,772)
Note receivable	46,588	40,788
Annuity receivable	(351,866)	-
Interest receivable	(1)	(3)
Prepaid expenses	6,395	230
Accounts payable and accrued expenses	140,019	(81,646)
Grants payable	129,631	(135,739)
Deferred revenue	(270,198)	1,015,207
Deferred rent	<u>(7,614)</u>	<u>15,044</u>
Net Cash Provided by Operating Activities	<u>\$ 248,632</u>	<u>\$ 1,041,712</u>

See accompanying notes to financial statements.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

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. RACC's mission is to enrich our communities through arts and culture.

A majority of RACC's funding is provided by a contract with the City of Portland, which provided 72% of total support and revenues in 2015 (64% in 2014). Other local public funders include Multnomah, Clackamas, and Washington Counties, and Metro, which provided a combined 8% (9% in 2014), including agency transactions. From the private sector, RACC's workplace giving program provided 5% of total revenues in 2015 (6% in 2014). Donations from businesses, foundations and individuals supporting RACC's arts education program accounted for 6% (11% in 2014).

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 \$750,000 was pledged in the campaign ending June 30, 2015 (\$776,000 for 2014).
- **Grants** - RACC distributed approximately \$4,900,000 in grant funds in 2015, serving 126 individual artists and 135 arts organizations, other non-profit organizations, and schools in the Portland tri-county area. The amount distributed includes amounts received in grants as well as those considered agency transactions. About 56 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, which celebrated its 35th year in 2015, 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 11,600 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 seventh year of implementation, the initiative served 19,324 students, 237 educators, and 49 teaching artists from 59 schools in seven school districts.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

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 \$1,962,634 in uninsured cash in deposit accounts as of June 30, 2015 (\$1,491,787 as of June 30, 2014). 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.

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.

Investments

Investments consist of highly liquid bonds and marketable equity and debt securities, which are carried at fair value, which is the current market value.

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 \$5,193 as of June 30, 2015 (\$7,451 in 2014). As of June 30, 2015 and 2014, 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 7 years for office and computer equipment and the shorter of the lease term or estimated useful life of the leasehold improvements, which is 5 years.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies, continued

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.

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, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies, continued

Fair Value of Financial Instruments

RACC's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, investments, receivables, and accounts payable. RACC estimates that the fair value of all of these non-derivative financial instruments (other than investments, see Note 5) at June 30, 2015 and 2014 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

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:

	2015	2014
Meeting spaces and luncheon	\$ 25,433	\$ 5,444
Outreach Activities	5,632	2,902
Artwork	5,940	1,509
Advertising	65	-
Framing and printing	11,428	6,428
Equipment and supplies	409	60,614

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 2015, contributed services consisted of accounting, legal, conservation, photography, and design services in the amount of \$9,466. During 2014, contributed services consisted of legal, marketing, conservation, IT consulting, and accounting services in the amount of \$8,976.

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.

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, 2015 or 2014.

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, 2015 and 2014.

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 2011.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies, continued

Comparative Financial Information

The 2014 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. 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, 2014, from which the summarized information was derived.

Subsequent Events

RACC has evaluated subsequent events through November 24, 2015, which is the date the financial statements were available to be issued.

Note 3 - 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 \$206,630 for the year ended June 30, 2015 (\$253,218 for the year ended June 30, 2014).

Note 4 - Annuity Receivable

RACC received an annuity during 2015. The terms of the trust state that RACC will receive \$25,500 annually for a period of 25 years. The annuity has been recorded at its net present value, with the discount at 5% being amortized into revenue annually. The proceeds from this annuity are restricted for use by the Right Brain Initiative.

At June 30, the balance of the annuity receivable is as follows:

	2015	2014
Annuity receivable	\$ 612,000	\$ -
Discount	(260,134)	-
	<u>\$ 351,866</u>	<u>\$ -</u>

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 5 - Fair Value of Investments

RACC's investments consist of 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:

	<u>2015</u>	<u>2014</u>
Cash	\$ 105,493	\$ 111,841
Agency Securities	1,411,134	1,532,343
US Treasuries	98,898	97,516
Municipal Bonds	97,136	99,411
Corporate Bonds	936,993	1,043,439
Domestic Equities	978,183	1,025,605
	<u>\$ 3,627,837</u>	<u>\$ 3,910,155</u>

Investment return is summarized at June 30 as follows:

	<u>2015</u>	<u>2014</u>
Interest and Dividend Income	\$ 86,443	\$ 86,917
Net Realized and Unrealized Gains	32,862	150,297
	<u>\$ 119,305</u>	<u>\$ 237,214</u>

Note 6 - Property and Equipment

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Office and Computer Equipment	\$ 354,006	\$ 333,131
Leasehold Improvements	165,532	79,871
Less: Accumulated Depreciation	<u>(246,167)</u>	<u>(179,238)</u>
	<u>\$ 273,371</u>	<u>\$ 233,764</u>

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 7 - 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.

	2015	2014
Education	\$ 71,622	\$ 25,596
Grants and Community Programs	810,229	718,951
Advocacy	15,312	23,635
Fundraising	28,057	-
Public Art:		
Maintenance	513,749	422,053
Management	116,446	195,494
FAR Bonus/Insitu	104,959	104,968
Special Projects	6,802	7,787
Previous Projects	5,137	5,137
Murals	4,417	5,167
Administration	-	18,082
	<u>\$ 1,676,730</u>	<u>\$ 1,526,870</u>

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	2015	2014
Education	\$ 663,698	\$ 487,075
Grants and Community Programs	153,683	154,534
Fundraising	18,000	-
Professional Development Grants	-	250
Public Art	40,012	42,473
Work for Art	2,521	3,362
Project Grants	2,500	2,500
General Administration	-	1,500
	<u>\$ 880,414</u>	<u>\$ 691,694</u>

Note 9 - 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 \$96,089 for the year ended June 30, 2015 (\$91,001 for the year ended June 30, 2014).

The Plan also allows employees to defer a portion of their salary as additional funds for retirement. Employees may elect to contribute up to the maximum allowed by law.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 10 - Lease Commitments

RACC leases its offices under an 8-year operating lease which expires July 2019. Facility rent expense was \$234,696 for the year ended June 30, 2015 (\$216,008 in 2014). Future lease commitments displayed below will be reduced by amounts receivable from the lessor, as discussed in Note 3.

At June 30, 2015, future annual lease commitments are as follows:

2016	\$	244,280
2017		251,616
2018		259,482
2019		244,077

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, \$99,538 as of June 30, 2015 and \$107,152 as of June 30, 2014 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 November 2015 and August 2018. Rent expense under these lease agreements was \$10,568 for the year ended June 30, 2015 (\$12,258 for the year ended June 30, 2014).

At June 30, 2015, future annual lease commitments for the copiers are as follows:

2016	\$	8,632
2017		8,256
2018		8,256
2019		688

Note 11 - 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 12 - 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 \$6.8 million of the net revenue is designated for schools to pay for certified arts specialists for all K-5 students at a rate of 1 teacher for every 500 students at each public school within the districts, starting in the fall of 2013. The remaining balance flows to RACC to make additional investments in arts education, arts organization support, and access. RACC received its first allocation from the AEAF in January of 2014, and RACC 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; and the remainder is for grants to support arts education and arts access projects.

REGIONAL ARTS & CULTURE COUNCIL

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 12 - Arts Education & Access Fund, continued

There are no requirements in the City Code or in RACC's contract with the City specifying the timeframe for offering grants or meeting the spending requirements set forth above. Any unspent funds are reported as deferred revenue in the accompanying statements of financial position, and are restricted for use per the terms of the contract with the City. The allocation of funds and how they were spent as of June 30 is as follows:

	2015				
	Funds Received	Funds Spent	Funds Carried over from 2014	Spent Funds Carried over from 2014	Remaining Funds
Arts Education Coordination	\$ 112,601	\$ 34,883	\$ 11,399	\$ 11,399	\$ 77,718
General Operating Support	1,583,149	1,066,431	225,000	225,000	516,718
Cultural Access Grants	85,250	-	272	-	85,522
	<u>\$ 1,781,000</u>	<u>\$ 1,101,314</u>	<u>\$ 236,671</u>	<u>\$ 236,399</u>	<u>\$ 679,958</u>

	2014		
	Funds Received	Funds Spent	Remaining Funds
Arts Education Coordination	\$ 23,928	\$ 12,529	\$ 11,399
General Operating Support	375,072	150,072	225,000
Cultural Access Grants	26,000	25,728	272
	<u>\$ 425,000</u>	<u>\$ 188,329</u>	<u>\$ 236,671</u>

Of the \$425,000 in funds received during the year ended June 30, 2014, \$424,728 was spent as of June 30, 2015, and the remaining \$272 was spent in August 2015.

Of the \$679,686 in funds received but not spent during the year ended June 30, 2015, \$192,000 was spent in August 2015 and the remaining balance is scheduled to be spent by June 2016.

SUPPLEMENTAL INFORMATION

REGIONAL ARTS & CULTURE COUNCIL

Schedule of Agency Transactions

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Contributions and Grants Revenue	\$ 904,741	\$ 1,159,617
Agency Transactions*		
Work for Art Donor Designations	<u>189,144</u>	<u>189,903</u>
Total Contributions and Agency Transactions	<u>\$ 1,093,885</u>	<u>\$ 1,349,520</u>
Contract Services Revenue	\$ 8,126,159	\$ 5,845,858
Agency Transactions*		
Clackamas County Arts Action Alliance	20,000	20,000
Oregon Symphony in the Parks	190,000	-
Cultural Coalition of Washington County	46,915	39,040
Multnomah County Cultural Coalition	<u>64,950</u>	<u>63,559</u>
Total Contract Services and Agency Transactions	<u>\$ 8,448,024</u>	<u>\$ 5,968,457</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.