



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS
(WITH SUPPLEMENTARY INFORMATION)

REGIONAL ARTS & CULTURE COUNCIL

June 30, 2018 and 2017



MOSSADAMS

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Report of Independent Auditors

To the Board of Directors
Regional Arts & Culture Council

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Arts & Culture Council (RACC), which comprise the statement of financial position as of June 30, 2018, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Prior Year Comparative Information***

Other auditors previously audited RACC's 2017 financial statements and expressed an unmodified audit opinion in their report dated October 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financials from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of agency transactions is presented for 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.

Moss Adams LLP

Portland, Oregon
November 16, 2018

Regional Arts & Culture Council
Statements of Financial Position

	June 30,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 10,794,495	\$ 6,054,263
Contributions and contracts receivable, net	712,423	442,839
Prepaid expenses	109,204	119,637
Note receivable	52,758	106,667
Annuity receivable, net	326,940	335,657
Investments	3,823,871	3,551,479
Property and equipment, net	78,567	136,427
	<u>\$ 15,898,258</u>	<u>\$ 10,746,969</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 336,838	\$ 439,504
Grants payable	1,612,067	994,510
Deferred revenue	11,682,863	6,771,698
Deferred rent	33,458	63,174
Total liabilities	<u>13,665,226</u>	<u>8,268,886</u>
NET ASSETS		
Unrestricted:		
Undesignated	222,555	204,154
Designated	997,095	1,208,048
Total unrestricted net assets	<u>1,219,650</u>	<u>1,412,202</u>
Temporarily restricted	<u>1,013,382</u>	<u>1,065,881</u>
Total net assets	<u>2,233,032</u>	<u>2,478,083</u>
Total liabilities and net assets	<u>\$ 15,898,258</u>	<u>\$ 10,746,969</u>

Regional Arts & Culture Council

Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2018			Year Ended June 30, 2017
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Contract services	\$ 8,067,443	\$ 232,691	\$ 8,300,134	\$ 7,643,281
Contributions and grants	441,741	265,733	707,474	548,921
Special events, net of expenses of \$144,524 in 2018 and \$84,702 in 2017	57,448	39,250	96,698	34,667
Interest and dividend income	86,929	295	87,224	79,456
Other revenue	31,395	-	31,395	32,789
Net unrealized and realized gains on investments	6,708	-	6,708	109,168
Interest from note receivable	4,098	-	4,098	6,732
Net assets released from restrictions - satisfaction of program restrictions	590,468	(590,468)	-	-
Total support and revenue	9,286,230	(52,499)	9,233,731	8,455,014
Expenses:				
Program services:				
Grants	5,107,089	-	5,107,089	4,180,651
Public art	1,445,443	-	1,445,443	1,213,726
Arts education	1,141,531	-	1,141,531	1,073,175
Advocacy	382,264	-	382,264	466,772
Community services	323,178	-	323,178	504,361
Total program services	8,399,505	-	8,399,505	7,438,685
Supporting services:				
Management and general	971,226	-	971,226	1,161,601
Fundraising	108,051	-	108,051	127,687
Total supporting services	1,079,277	-	1,079,277	1,289,288
Total expenses	9,478,782	-	9,478,782	8,727,973
CHANGE IN NET ASSETS	(192,552)	(52,499)	(245,051)	(272,959)
NET ASSETS, beginning of year	1,412,202	1,065,881	2,478,083	2,751,042
NET ASSETS, ending of year	\$ 1,219,650	\$ 1,013,382	\$ 2,233,032	\$ 2,478,083

Regional Arts & Culture Council Statements of Functional Expense

	Grants	Public Art	Arts and Education	Advocacy	Community Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	2018 Total	2017 Total
Program services:											
Grants (grants returned)	\$ 4,398,068	\$ -	\$ -	\$ -	\$ -	\$ 4,398,068	\$ -	\$ -	\$ -	\$ 4,398,068	\$ 3,826,036
Artist fees and services	250	641,162	426,201	1,327	450	1,069,390	1,000	-	1,000	1,070,390	918,535
Professional services	334,778	121,626	267,803	19,604	23,213	767,024	172,625	425	173,050	940,074	906,537
Total programs services	4,733,096	762,788	694,004	20,931	23,663	6,234,482	173,625	425	174,050	6,408,532	5,651,108
Supporting services:											
Salaries and benefits	278,633	521,261	319,221	266,434	218,627	1,604,176	750,625	86,507	837,132	2,441,308	2,458,742
Rent	-	3,040	-	-	-	3,040	233,299	-	233,299	236,339	235,966
Conferences and meetings	30,655	9,930	23,282	1,151	8,259	73,277	26,043	403	26,446	99,723	80,599
Depreciation	-	-	19,699	-	-	19,699	55,309	-	55,309	75,008	79,142
Printing and advertising	1,175	5,943	2,715	7,436	13,762	31,031	7,928	494	8,422	39,453	41,275
Equipment maintenance	-	8,345	881	2,643	-	11,869	11,673	-	11,673	23,542	20,553
Supplies	412	6,187	2,418	2,632	1,463	13,112	9,666	124	9,790	22,902	20,588
Telephone	-	707	638	780	-	2,125	26,303	-	26,303	28,428	24,014
Dues and subscriptions	229	494	1,261	7,426	3,544	12,954	14,392	213	14,605	27,559	34,680
Transportation	954	6,861	4,718	904	1,715	15,152	5,744	11	5,755	20,907	29,543
Equipment	742	675	-	6,820	-	8,237	12,040	-	12,040	20,277	17,979
Insurance	894	-	-	-	104	998	12,105	-	12,105	13,103	13,005
Other professional services	-	-	-	-	-	-	12,312	-	12,312	12,312	9,532
Postage and shipping	90	1,935	563	787	4,940	8,315	766	308	1,074	9,389	11,247
Management and general allocation	60,209	117,277	72,131	64,320	47,101	361,038	(380,604)	19,566	(361,038)	-	-
Total supporting services	373,993	682,655	447,527	361,333	299,515	2,165,023	797,601	107,626	905,227	3,070,250	3,076,865
Total expenses	<u>\$ 5,107,089</u>	<u>\$ 1,445,443</u>	<u>\$ 1,141,531</u>	<u>\$ 382,264</u>	<u>\$ 323,178</u>	<u>\$ 8,399,505</u>	<u>\$ 971,226</u>	<u>\$ 108,051</u>	<u>\$ 1,079,277</u>	<u>\$ 9,478,782</u>	<u>\$ 8,727,973</u>

Regional Arts & Culture Council

Statements of Cash Flows

	Years Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (245,051)	\$ (272,959)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	75,008	79,142
Realized and unrealized gains losses on investments	(6,708)	(109,168)
Gain on disposals of fixed assets	(770)	-
Change in allowance for doubtful accounts	8,592	-
Change in discount on annuity receivable	(16,783)	-
Changes in operating assets and liabilities:		
Contributions and contracts receivable	(278,176)	227,524
Annuity receivable	25,500	8,302
Prepaid expenses	10,433	(50,282)
Accounts payable and accrued expenses	(102,666)	40,222
Grants payable	617,557	70,256
Deferred revenue	4,911,165	3,110,916
Deferred rent	(29,716)	(21,850)
Net cash from operating activities	<u>4,968,385</u>	<u>3,082,103</u>
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(17,148)	(13,360)
Proceeds from sale of property and equipment	770	-
Purchases of investments	(690,316)	(79,586)
Proceeds from sales and maturities of investments	424,632	307,513
Proceeds from note receivable	<u>53,909</u>	<u>51,377</u>
Net cash (used in) from investing activities	<u>(228,153)</u>	<u>265,944</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>4,740,232</u>	<u>3,348,047</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,054,263</u>	<u>2,706,216</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 10,794,495</u></u>	<u><u>\$ 6,054,263</u></u>

Regional Arts & Culture Council

Notes to Financial Statements

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 69% and 68% of total support and revenues in 2018 and 2017, respectively. Other local public funders include Multnomah, Clackamas, and Washington Counties, and Metro, which provided a combined 11% and 13% in 2018 and 2017, respectively, including agency transactions. From the private sector, RACC's workplace giving program provided 2% and 6% of total revenues in 2018 and 2017, respectively. Donations from businesses, foundations and individuals supporting RACC's arts education program accounted for 4% and 3% in 2018 and 2017, respectively.

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:

- Grants – RACC distributed approximately \$4,800,000 and \$4,400,000 in grant funds in 2018 and 2017, respectively. Serving 158 individual artists and 162 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. Approximately 54 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 38th year in 2018, 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.
- Arts and 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 tenth year of implementation, the initiative served 31,499 individuals, including students, educators, and teaching artists from 70 schools in eight school districts and one Oregon Department of Education charter school.
- 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 the impact. RACC also conducts a workplace giving program (Work for Art) that introduces thousands of employees to the local arts community and generates contributions for the region's arts and cultural organizations. Approximately \$636,000 and \$821,000 were pledged in the campaign ending June 30, 2018 and 2017, respectively.

Regional Arts & Culture Council

Notes to Financial Statements

Note 1 – Organization (continued)

- 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 electronic form serving more than 7,000 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.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Financial statement presentation – The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets in accordance with accounting principles generally accepted in the United States of America. The definitions used to classify and report net assets are as follows:

- Unrestricted net assets – Net assets that are not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that may or will be met, either by actions of RACC and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations which must be maintained permanently by RACC. Generally, the donors of these assets permit RACC to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2018 or 2017.

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. However, RACC has not incurred any credit related losses to date.

Contributions and contracts receivable – Contributions and contracts receivable are recorded net of the allowance for doubtful accounts of \$22,721 and \$31,313 at June 30, 2018 and 2017, respectively. The allowance for doubtful accounts is estimated by evaluating the credit worthiness of those from whom amounts are due as well as current economic trends. Receivables are considered delinquent if not paid by the due date. Accounts are charged off when all collection efforts have been exhausted. As of June 30, 2018 and 2017, all contributions and contracts receivable are due to be collected in 12 months or less.

Regional Arts & Culture Council

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Investments – Investments in securities with readily determinable fair values are measured at fair value in the statement of financial position. Investment income or loss (including gains or losses on investments, interest, and dividends) is included in the statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Property and equipment – Property and equipment are carried at cost, or for donated items, at estimated fair value at the date of donation. Purchases of property and equipment exceeding \$3,500 with an expected useful life of more than one year are capitalized. Normal expenditures for repairs and maintenance are charged to expense as incurred. Upon retirement or sale of property and equipment, the cost of the asset and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded. Depreciation of property and equipment is recorded over the estimated useful lives of the respective assets on the straight-line basis with such lives ranging from 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 5 to 7 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. Grants are generally paid within one year of Board approval.

Contributions and grants – Contributions and grants are reported as revenue, with a corresponding receivable, in the period in which the promise is received or the grant is awarded.

All contributions are considered to be available for RACC's unrestricted use unless specifically restricted by the donor. Contributions restricted by the donor are recorded as temporarily restricted or permanently restricted, as appropriate. Grants are restricted by the grantor for specific activities and are recorded as temporarily restricted. When the restrictions are satisfied, the temporarily restricted amounts are released to unrestricted net assets.

Contract services – Contract 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 Multnomah, Washington, and Clackamas counties, Metro, and the Oregon Arts Commission are considered fee-for-service contractual relationships.

Regional Arts & Culture Council

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Through the City of Portland and Multnomah County, RACC receives a 2% “Percent for Art” assessment made against major construction project 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.

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 property and equipment, as appropriate. Major in-kind contributions included the following for the year ended June 30:

	2018	2017
Meeting spaces, luncheons, and events	\$ 20,663	\$ 19,192
Professional services	13,679	-
Framing and printing	1,331	4,206
Advertising	18	2,094
Artwork	-	1,200
Equipment and supplies	-	1,920
	<u>\$ 35,691</u>	<u>\$ 28,612</u>

Functional allocation of expenses – The costs of RACC’s various programs and supporting services have been summarized on a functional basis in the statements 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. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

RACC recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. RACC recognizes interest and penalties related to income tax matters, if any, in management and general expenses.

RACC had no unrecognized tax benefits at June 30, 2018 or 2017. RACC files an exempt organization return in the U.S. federal, state, and local jurisdictions.

Comparative financial information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with RACC's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Use of estimates – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. RACC recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. RACC's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements were available to be issued.

RACC has evaluated subsequent events through November 16, 2018, which is the date the financial statements were available to be issued.

Reclassifications – Certain reclassifications have been made to the 2017 financial statements to conform to the current year presentation. These reclassifications had no impact on total net assets or the change in net assets.

Regional Arts & Culture Council

Notes to Financial Statements

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 include 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. Future lease commitments disclosed in Note 12 represent the gross lease expense and will be offset with the future rent reductions noted above. The note receivable balance was \$52,758 and \$106,667 at June 30, 2018 and 2017, respectively.

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.

The balance of the annuity receivable is as follows at June 30:

	2018	2017
Annuity receivable	\$ 535,500	\$ 561,000
Discount	(208,560)	(225,343)
	<u>\$ 326,940</u>	<u>\$ 335,657</u>

Note 5 – Fair Value of Investments

RACC accounts for financial instruments in accordance with the standard for *Fair Value Measurements*. This standard defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. RACC determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect RACC's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Regional Arts & Culture Council

Notes to Financial Statements

Note 5 – Fair Value of Investments (continued)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. RACC's own data used to develop unobservable inputs is adjusted for market consideration when available.

RACC used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

Investments – Investments are comprised of equities and fixed income funds for which fair values are based on quoted market prices in an active market. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Investments consisted of the following at June 30:

	2018	2017
Equities	\$ 1,095,310	\$ 1,068,517
Fixed income		
Corporate bonds	946,945	923,183
Agency securities	868,046	959,808
U.S. treasuries	653,974	451,771
Municipal bonds	259,596	148,200
	<u>\$ 3,823,871</u>	<u>\$ 3,551,479</u>

All of these investments are considered to be Level 1 at June 30, 2018 and 2017. RACC does not have any investments that are considered Level 2 or Level 3. RACC has no liabilities that are required to be measured at fair value at June 30, 2018 or 2017. There were no changes in valuation methodologies or assumptions during the years ended June 30, 2018 or 2017. It is RACC's policy to recognize transfers between levels in the fair value hierarchy as of the actual date of the event or circumstances that caused the transfer.

Note 6 – Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Office and computer equipment	\$ 380,915	\$ 365,605
Leasehold improvements	165,532	165,532
Less accumulated depreciation	<u>(467,880)</u>	<u>(394,710)</u>
	<u>\$ 78,567</u>	<u>\$ 136,427</u>

Regional Arts & Culture Council

Notes to Financial Statements

Note 7 – Deferred Revenue

Deferred revenue represents funds received in advance for services to be provided under contracts with local governments and other organizations. Generally, those funds relate to projects that will be funded in the following fiscal year. See Notes 1 and 14 for additional information.

The following provides a rollforward of activity within deferred revenue as of June 30, 2018:

Deferred revenue, June 1, 2017	\$ 6,771,698
Cash receipts	13,150,301
Recognized as revenue	<u>(8,239,136)</u>
Deferred revenue, June 30, 2018	<u><u>\$ 11,682,863</u></u>

Note 8 – 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>2018</u>	<u>2017</u>
Grants and community services	\$ 460,307	\$ 301,734
Public art	388,268	789,592
Arts education	147,700	115,903
Management and general	820	-
Advocacy	<u>-</u>	<u>819</u>
	<u><u>\$ 997,095</u></u>	<u><u>\$ 1,208,048</u></u>

Note 9 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Arts education	\$ 784,925	\$ 521,357
Grants and community services	191,429	499,041
Public art	37,028	37,195
Fundraising	-	5,788
Project grants	<u>-</u>	<u>2,500</u>
	<u><u>\$ 1,013,382</u></u>	<u><u>\$ 1,065,881</u></u>

Regional Arts & Culture Council

Notes to Financial Statements

Note 10 – Net Assets Released from Restriction

Net assets relating to restricted contributions and grants are released from temporarily restricted net assets to unrestricted net assets when RACC incurs expenses satisfying the restricted purposes or when other events specified by donors occur. Such releases are summarized as follows for the year ended June 30, 2018:

Grants and community services	\$ 489,560
Arts education	88,922
Fundraising	5,788
Management and general	3,236
Project grants	2,500
Public art	462
	<hr/>
	\$ 590,468

Note 11 – 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. The Plan also allows employees to defer a portion of their salary as additional funds for retirement. Employees may elect to contribute up the maximum allowed by law. Total contributions by RACC to the Plan were \$108,006 and \$110,916 for the years ended June 30, 2018 and 2017, respectively.

Note 12 – Lease Commitments

RACC leases its offices under an operating lease which expires July 2019. Facility rent expense was \$236,340 and \$235,966 for the years ended June 30, 2018 and 2017, respectively. Future lease commitments displayed below will be reduced by amounts receivable from the lessor, as discussed in Note 3. Future annual lease commitments total \$244,077 which is scheduled to be paid during the year ending June 30, 2019.

RACC's lease commitment includes an escalating rent schedule. In accordance with accounting principles generally accepted in the United State of America, rent expense is required to be recognized on a straight line basis over the term of the lease. As a result, \$33,458 and \$63,174 as of June 30, 2018 and 2017, respectively, rent deferred to the future years has been recognized as a liability in the statements of financial position.

Regional Arts & Culture Council

Notes to Financial Statements

Note 13 – Contingencies

Amounts received or receivable under RACC's governmental contracts are subject to audit and adjustments. 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 14 – Arts Education & Access Fund

In November 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. An estimated \$6.8 million funds certified arts specialists for all K-5 students at a rate of 1 teacher for every 500 students at each public school in Portland. The remaining proceeds flow to RACC to make additional investments in arts education, arts organization support, and access. 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. The remainder is for grants to support arts education and arts access projects.

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 is as follows for the years ended June 30:

	2018				
	Funds Received	Funds Spent	Funds Carried over from 2017	Spent (returned) Funds Carried over from 2017	Remaining Funds
Arts education coordination	\$ 235,400	\$ -	\$ 212,477	\$ 178,307	\$ 269,570
General operating support	4,237,200	-	2,092,736	1,601,453	4,728,483
Cultural access grants	235,400	72,192	237,170	237,170	163,208
	<u>\$ 4,708,000</u>	<u>\$ 72,192</u>	<u>\$ 2,542,383</u>	<u>\$ 2,016,930</u>	<u>\$ 5,161,261</u>
	2017				
	Funds Received	Funds Spent	Funds Carried over from 2016	Spent (returned) Funds Carried over from 2016	Remaining Funds
Arts education coordination	\$ 170,000	\$ -	\$ 173,344	\$ 130,867	\$ 212,477
General operating support	2,975,239	882,503	337,755	337,755	2,092,736
Cultural access grants	165,761	-	65,987	(5,422)	237,170
	<u>\$ 3,311,000</u>	<u>\$ 882,503</u>	<u>\$ 577,086</u>	<u>\$ 463,200</u>	<u>\$ 2,542,383</u>

All funds received and not spent during the year ended June 30, 2017 are scheduled to be spent within the next two fiscal years.

Note 14 – Arts Education & Access Fund (continued)

In June 2018, the Board approved to modify RACC's current spending policy with regard to AEAF funds. Going forward, RACC will base its annual allocations for the funds noted above on the amount of funding that is available in December of every year, and hold additional, unanticipated allocations after January 31 as mitigation for future anticipated revenue shortfalls and other uncertainties, not to exceed one year's disbursement obligations. RACC will disburse all excess AEAF revenues received above the amount of the reserve by September 1 of each year, through a one-time special allocation if necessary, for purposes that are consistent with RACC's service agreement with the City of Portland and the goals of the Board.

Supplementary Information

Regional Arts & Culture Council
Schedule of Agency Transactions
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Contributions and grants revenue	\$ 707,474	\$ 548,921
Agency transactions:*		
Work for art donor designations	<u>210,461</u>	<u>234,890</u>
Total contributions and agency transactions	<u>\$ 917,935</u>	<u>\$ 783,811</u>
Contract services revenue	\$ 8,300,134	\$ 7,643,281
Agency transactions:*		
Clackamas County Arts Action Alliance	20,000	20,000
Oregon Symphony in the Parks	-	190,000
Cultural Coalition of Washington County	60,884	55,074
Multnomah County Cultural Coalition	<u>83,750</u>	<u>74,000</u>
Total contract services and agency transactions	<u>\$ 8,464,768</u>	<u>\$ 7,982,355</u>

*Agency transactions are transactions in which the 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 asset per ASC 958-605-25-24. As such, RACC recognizes these amounts as “pass-through” or agency transactions.

