



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

REGIONAL ARTS & CULTURE COUNCIL

June 30, 2019 and 2018



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 statements of financial position as of June 30, 2019 and 2018, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2019 and 2018, and the changes in its nets assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, as of June 30, 2019, Regional Arts & Culture Council adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters*Prior Year Comparative Information*

We have previously audited RACC's 2018 financial statements and we expressed an unmodified audit opinion on those financial statements in our report dated November 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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
October 17, 2019

Regional Arts & Culture Council
Statements of Financial Position

	June 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 6,213,473	\$ 10,794,495
Contributions and contracts receivable, net	520,886	712,423
Prepaid expenses	100,903	109,204
Note and interest receivable	478	52,758
Annuity receivable, net	317,787	326,940
Investments	8,056,102	3,823,871
Property and equipment, net	49,298	78,567
	\$ 15,258,927	\$ 15,898,258
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 319,803	\$ 336,838
Grants payable	1,963,368	1,612,067
Deferred revenue	10,613,999	11,682,863
Deferred rent	18,378	33,458
	12,915,548	13,665,226
NET ASSETS		
Without donor restrictions		
Undesignated	425,619	222,555
Designated	994,160	997,095
	1,419,779	1,219,650
With donor restrictions	923,600	1,013,382
	2,343,379	2,233,032
	\$ 15,258,927	\$ 15,898,258

Regional Arts & Culture Council

Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2019			Year Ended June 30, 2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contract services	\$ 12,049,245	\$ 138,451	\$ 12,187,696	\$ 8,300,134
Contributions and grants	303,725	121,896	425,621	707,474
Special events, net of expenses of \$139,347 and \$144,524 in 2019 and 2018, respectively	(80,253)	23,757	(56,496)	96,698
Investment return, net	320,071	-	320,071	78,353
Other revenue	47,322	-	47,322	31,395
Interest from note receivable	1,310	-	1,310	4,098
Net assets released from restrictions – satisfaction of program restrictions	373,886	(373,886)	-	-
Total support and revenue	13,015,306	(89,782)	12,925,524	9,218,152
Expenses:				
Program services:				
Grants	7,914,879	-	7,914,879	5,107,089
Public art	1,748,329	-	1,748,329	1,445,443
Arts education	1,187,303	-	1,187,303	1,141,531
Advocacy	343,145	-	343,145	382,264
Community services	310,656	-	310,656	323,178
Total program services	11,504,312	-	11,504,312	8,399,505
Supporting services:				
Management and general	1,172,766	-	1,172,766	955,647
Fundraising	138,099	-	138,099	108,051
Total supporting services	1,310,865	-	1,310,865	1,063,698
Total expenses	12,815,177	-	12,815,177	9,463,203
CHANGE IN NET ASSETS	200,129	(89,782)	110,347	(245,051)
NET ASSETS, beginning of year	1,219,650	1,013,382	2,233,032	2,478,083
NET ASSETS, ending of year	\$ 1,419,779	\$ 923,600	\$ 2,343,379	\$ 2,233,032

Regional Arts & Culture Council Statements of Functional Expenses

	Grants	Public Art	Arts and Education	Advocacy	Community Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	2019 Total	2018 Total
Program services:											
Grants (grants returned)	\$ 7,131,927	\$ -	\$ -	\$ -	\$ -	\$ 7,131,927	\$ -	\$ -	\$ -	\$ 7,131,927	\$ 4,398,068
Artist fees and services	1,250	937,464	423,585	980	-	1,363,279	3,425	-	3,425	1,366,704	1,070,390
Professional services	282,039	133,359	185,340	7,942	18,110	626,790	146,601	100	146,701	773,491	924,495
Total program services	7,415,216	1,070,823	608,925	8,922	18,110	9,121,996	150,026	100	150,126	9,272,122	6,392,953
Supporting services:											
Salaries and benefits	380,163	518,090	441,386	264,486	233,467	1,837,592	981,150	110,082	1,091,232	2,928,824	2,441,308
Rent	-	7,148	-	-	-	7,148	232,508	-	232,508	239,656	236,339
Conferences and meetings	25,378	6,764	4,458	1,734	3,178	41,512	20,410	126	20,536	62,048	99,723
Depreciation	-	-	12,000	-	-	12,000	39,442	-	39,442	51,442	75,008
Transportation	1,053	12,684	13,034	1,716	2,020	30,507	17,038	-	17,038	47,545	20,907
Dues and subscriptions	4,270	837	1,176	3,449	2,035	11,767	30,126	97	30,223	41,990	27,559
Telephone	25	900	1,240	650	480	3,295	26,238	-	26,238	29,533	28,428
Other professional services	-	-	-	-	-	-	27,228	-	27,228	27,228	12,312
Equipment	3,000	3,475	864	309	324	7,972	19,149	-	19,149	27,121	20,277
Equipment maintenance	-	7,989	138	1,252	-	9,379	14,223	2,946	17,169	26,548	23,542
Printing and advertising	2,451	1,570	6,159	1,249	308	11,737	9,348	797	10,145	21,882	39,453
Supplies	448	4,402	2,724	1,872	235	9,681	10,654	26	10,680	20,361	22,902
Insurance	126	-	3	-	-	129	13,753	-	13,753	13,882	13,103
Postage and shipping	140	807	150	567	242	1,906	785	49	834	2,740	9,389
Miscellaneous	-	-	-	-	-	-	2,255	-	2,255	2,255	-
Management and general allocation	82,609	112,840	95,046	56,939	50,257	397,691	(421,567)	23,876	(397,691)	-	-
Total supporting services	499,663	677,506	578,378	334,223	292,546	2,382,316	1,022,740	137,999	1,160,739	3,543,055	3,070,250
Total expenses	\$ 7,914,879	\$ 1,748,329	\$ 1,187,303	\$ 343,145	\$ 310,656	\$ 11,504,312	\$ 1,172,766	\$ 138,099	\$ 1,310,865	\$ 12,815,177	\$ 9,463,203

Regional Arts & Culture Council

Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Change in net assets	\$ 110,347	\$ (245,051)
Adjustments to reconcile change in net assets to net cash (used in) from operating activities:		
Depreciation	51,442	75,008
Realized and unrealized gains on investments	(234,126)	(6,708)
Gain on disposals of property and equipment	-	(770)
Change in allowance for doubtful accounts	(14,671)	8,592
Change in discount on annuity receivable	(16,347)	(16,783)
Changes in operating assets and liabilities:		
Contributions and contracts receivable	206,208	(278,176)
Annuity receivable	25,500	25,500
Prepaid expenses	8,301	10,433
Accounts payable and accrued expenses	(17,035)	(102,666)
Grants payable	351,301	617,557
Deferred revenue	(1,068,864)	4,911,165
Deferred rent	(15,080)	(29,716)
Net cash (used in) from operating activities	<u>(613,024)</u>	<u>4,968,385</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of property and equipment	(22,173)	(17,148)
Proceeds from sale of property and equipment	-	770
Purchases of investments	(9,508,091)	(690,316)
Proceeds from sales and maturities of investments	5,509,986	424,632
Proceeds from note receivable	52,280	53,909
Net cash used in investing activities	<u>(3,967,998)</u>	<u>(228,153)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,581,022)	4,740,232
CASH AND CASH EQUIVALENTS, beginning of year	<u>10,794,495</u>	<u>6,054,263</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 6,213,473</u></u>	<u><u>\$ 10,794,495</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 72% and 69% of total support and revenues in 2019 and 2018, respectively. Other local public funders include Multnomah, Clackamas, and Washington Counties, and Metro, which provided a combined 16% and 11% in 2019 and 2018, respectively, including agency transactions. From the private sector, RACC's workplace giving program provided less than 1% and 2% of total revenues in 2019 and 2018, respectively. Donations from businesses, foundations and individuals supporting RACC's arts education program accounted for 1% and 4% in 2019 and 2018, 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 \$7,400,000 and \$4,800,000 in grant funds in 2019 and 2018, respectively, and currently serves 193 individual artists and 153 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 94 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 39th year in 2019, 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 Education* – The Right Brain Initiative (Right Brain) is a program of RACC. Right Brain is the only region-wide partnership that works to bring equitable arts education to every K-8 student in the Portland, Oregon area. In its eleventh year of implementation, Right Brain served 33,000 individuals, including students, educators, and teaching artists from 70 schools in eight districts and one Oregon Department of Education charter school. RACC also supports the 72 arts teachers funded by the voter-approved Arts Tax that guarantees the arts are part of the education of all 34,250 K-5 students in the City of Portland. In addition, RACC works with all six Portland school districts to help ensure continued arts learning for students in middle and high 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 that introduces thousands of employees to the local arts community and generates contributions for the region's arts and cultural organizations. Approximately \$327,000 and \$636,000 was pledged in the campaign ending June 30, 2019 and 2018, 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 midsized 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 – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor (or grantor) restrictions. The Board of Directors has designated, from net assets without donor restrictions, amounts for various programs. See Note 9. These designations can be released at any time with Board approval.
- *Net assets with donor restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources must be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and cash equivalents – 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 \$8,050 and \$22,721 at June 30, 2019 and 2018, 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, 2019 and 2018, all contributions and contracts receivable are due to be collected in 12 months or less.

Note 2 – Summary of Significant Accounting Policies (continued)

Investments and investment return – Investments in securities with readily determinable fair values are measured at fair value in the statements of financial position. Investment return includes realized and unrealized gains and losses, interest, and dividends, net of investment expenses, and is reported as an increase or decrease to the appropriate net asset category.

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 unless the grant is subject to conditions. 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 general use unless specifically restricted by the donor. Contributions restricted by the donor are recorded as net assets with donor restrictions. Grants are restricted by the grantor for specific activities and are recorded as net assets with donor restrictions. When the restrictions are satisfied, the net assets with donor restrictions amounts are released to net assets without donor restrictions.

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 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.

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:

	2019	2018
Meeting spaces, luncheons, and events	\$ 19,470	\$ 20,663
Professional services	13,882	13,679
Framing and printing	629	1,331
Advertising	-	18
	\$ 33,981	\$ 35,691

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, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include rent and depreciation which are allocated on a square footage basis, as well as salaries and benefits and other professional services, which are allocated on the basis of estimates of time and effort.

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, 2019 or 2018. 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, 2018, 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.

Recently adopted standards – RACC adopted Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 948): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the 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 October 17, 2019, which is the date the financial statements were available to be issued.

Regional Arts & Culture Council

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Reclassifications – Certain reclassifications have been made to the 2018 financial statements to conform to the current year presentation. These reclassifications had no impact on total net assets or the change in net assets.

Note 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

Cash and cash equivalents	\$ 6,213,473
Contributions and contracts receivable, net	520,886
Investments	<u>8,056,102</u>
	<u>14,790,461</u>
Less: Amounts recorded in grants payable	(1,963,368)
Amounts recorded in deferred revenue	(10,613,999)
Amounts with donor restrictions	<u>(923,600)</u>
	<u>\$ 1,289,494</u>

As part of RACC's liquidity plan, RACC invests cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to Board-designated net assets, which was \$994,160 at June 30, 2019. This amount could be used for general expenditure upon approval by the Board.

Note 4 – 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 13 represent the gross lease expense and will be offset with the future rent reductions noted above. The note receivable balance was \$478 and \$52,758 at June 30, 2019 and 2018, respectively.

Note 5 – 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.

Regional Arts & Culture Council Notes to Financial Statements

Note 5 – Annuity Receivable (continued)

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

	2019	2018
Annuity receivable	\$ 510,000	\$ 535,500
Discount	(192,213)	(208,560)
	\$ 317,787	\$ 326,940

Note 6 – 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.

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.

Regional Arts & Culture Council

Notes to Financial Statements

Note 6 – Fair Value of Investments (continued)

Investments consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Equities	\$ 1,239,648	\$ 1,095,310
Fixed income		
U.S. treasuries	4,831,152	653,974
Corporate bonds	946,306	946,945
Agency securities	730,618	868,046
Municipal bonds	257,081	259,596
Certificates of deposit	<u>51,297</u>	<u>-</u>
	<u>\$ 8,056,102</u>	<u>\$ 3,823,871</u>

All of these investments, except for certificates of deposit, are considered to be Level 1 at June 30, 2019 and 2018. RACC considers certificates of deposit to be Level 2 investments at June 30, 2019. RACC does not have any investments that are considered Level 3. RACC has no liabilities that are required to be measured at fair value at June 30, 2019 or 2018. There were no changes in valuation methodologies or assumptions during the years ended June 30, 2019 or 2018. 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 7 – Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Office and computer equipment	\$ 403,087	\$ 380,914
Leasehold improvements	165,532	165,532
Less accumulated depreciation	<u>(519,321)</u>	<u>(467,879)</u>
	<u>\$ 49,298</u>	<u>\$ 78,567</u>

Regional Arts & Culture Council Notes to Financial Statements

Note 8 – 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 15 for additional information.

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

	<u>2019</u>	<u>2018</u>
Deferred revenue, beginning of year	\$ 11,682,863	\$ 6,771,698
Cash receipts	11,118,832	13,150,301
Recognized as revenue	<u>(12,187,696)</u>	<u>(8,239,136)</u>
Deferred revenue, end of year	<u><u>\$ 10,613,999</u></u>	<u><u>\$ 11,682,863</u></u>

Note 9 – Designated Net Assets without Donor Restrictions

The following funds have been designated by the Board of Directors for programs within the departments listed below at June 30:

	<u>2019</u>	<u>2018</u>
Public art	\$ 797,074	\$ 388,268
Grants and community services	145,157	460,307
Arts education	51,929	147,700
Management and general	<u>-</u>	<u>820</u>
	<u><u>\$ 994,160</u></u>	<u><u>\$ 997,095</u></u>

Note 10 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Arts education	\$ 629,426	\$ 784,925
Grants and community services	255,146	191,429
Public art	<u>39,028</u>	<u>37,028</u>
	<u><u>\$ 923,600</u></u>	<u><u>\$ 1,013,382</u></u>

Regional Arts & Culture Council

Notes to Financial Statements

Note 11 – Net Assets Released from Restrictions

Net assets relating to restricted contributions and grants are released from net assets with donor restrictions to net assets without donor restrictions 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, 2019:

Arts education	\$ 285,200
Grants and community services	85,500
Management and general	<u>3,186</u>
	<u>\$ 373,886</u>

Note 12 – Retirement Plan

RACC provides a 401(k) 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 to the maximum allowed by law. Total contributions by RACC to the Plan were \$127,817 and \$108,006 for the years ended June 30, 2019 and 2018, respectively.

Note 13 – Lease Commitments

RACC leases its offices under an operating lease which expires August 2026. Facility rent expense was \$239,656 and \$236,340 for the years ended June 30, 2019 and 2018, respectively. RACC also leases various office equipment under operating leases which expire March 2024. Total equipment rent expense was \$9,624 and 8,256 for the years ended June 30, 2019 and 2018, respectively. Total future lease commitments displayed below will be reduced by amounts receivable from the lessor, as discussed in Note 4.

Years ending June 30, 2020	\$ 181,748
2021	222,494
2022	227,050
2023	231,398
2024	233,685
Thereafter	<u>531,064</u>
	<u>\$ 1,627,439</u>

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 of June 30, 2019 and 2018, deferred rent of \$18,378 and \$33,458, respectively, has been recognized as a liability in the statements of financial position.

Regional Arts & Culture Council Notes to Financial Statements

Note 14 – 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 net assets without donor restrictions. 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 15 – 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 of Portland 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 of Portland. The allocation of funds and how they were spent is as follows for the years ended June 30:

	2019					
	Funds Received	Funds Spent	Funds Carried over from 2018	Adjustments to Funds Carried over from 2018	Spent (Returned) Funds Carried over from 2018	Remaining Funds
Arts education coordination	\$ 139,750	\$ -	\$ 269,570	\$ 125,000	\$ 195,973	\$ 338,347
General operating support	3,265,700	259,385	4,728,483	(425,000)	4,303,669	3,006,129
Cultural access grants	210,550	-	163,208	300,000	374,222	299,536
	<u>\$ 3,616,000</u>	<u>\$ 259,385</u>	<u>\$ 5,161,261</u>	<u>\$ -</u>	<u>\$ 4,873,864</u>	<u>\$ 3,644,012</u>
	2018					
	Funds Received	Funds Spent	Funds Carried over from 2017	Adjustments to 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>\$ -</u>	<u>\$ 2,016,930</u>	<u>\$ 5,161,261</u>

Regional Arts & Culture Council

Notes to Financial Statements

Note 15 – 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. The Board approved adjustments to carry over funds allocated to Arts Education Coordination and Access Grants through a Special Allocation that was made during the first quarter of the year ended June 30, 2019. All funds received and not spent during the year ended June 30, 2019 are scheduled to be spent within the next two fiscal years.

Supplementary Information

Regional Arts & Culture Council
Schedule of Agency Transactions
For the Years Ended June 30, 2019 and 2018

	2019	2018
Contributions and grants revenue	\$ 425,621	\$ 707,474
Agency transactions:*		
Work for art donor designations	108,904	210,461
Total contributions and agency transactions	\$ 534,525	\$ 917,935
Contract services revenue	\$ 12,187,696	\$ 8,300,134
Agency transactions:*		
Clackamas County Arts Action Alliance	20,000	20,000
Cultural Coalition of Washington County	65,915	60,884
Multnomah County Cultural Coalition	87,860	83,750
Total contract services and agency transactions	\$ 12,361,471	\$ 8,464,768

*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.

