



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

REGIONAL ARTS & CULTURE COUNCIL

June 30, 2020 and 2019



MOSSADAMS

Table of Contents

| | PAGE |
|--|------|
| Report of Independent Auditors | 1–2 |
| Financial Statements | |
| Statements of financial position | 3 |
| Statements of activities and changes in net assets | 4–5 |
| Statements of functional expenses | 6–7 |
| Statements of cash flows | 8 |
| Notes to financial statements | 9–20 |
| Supplementary Information | |
| Schedule of agency transactions | 21 |

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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, RACC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, on a modified prospective basis. Our opinion is not modified with respect to this matter.

Other Matters***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
January 22, 2021

Regional Arts & Culture Council
Statements of Financial Position

ASSETS

| | June 30, | |
|---|-----------------------------|-----------------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Cash and cash equivalents | \$ 8,926,461 | \$ 6,213,473 |
| Contributions and contracts receivable, net | 590,911 | 520,886 |
| Prepaid expenses and other assets | 83,801 | 101,381 |
| Annuity receivable, net | 308,176 | 317,787 |
| Investments | 5,146,207 | 8,056,102 |
| Property and equipment, net | 36,032 | 49,298 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$ 15,091,588</u> | <u>\$ 15,258,927</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|-----------------------------|-----------------------------|
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 1,610,578 | \$ 319,803 |
| Grants payable | 1,061,090 | 1,963,368 |
| Refundable advance | 94,267 | - |
| Deferred revenue | 9,724,488 | 10,613,999 |
| Deferred rent | 65,803 | 18,378 |
| | <u> </u> | <u> </u> |
| Total liabilities | <u>12,556,226</u> | <u>12,915,548</u> |
| NET ASSETS | | |
| Without donor restrictions | | |
| Undesignated | 622,459 | 425,619 |
| Designated | 1,198,977 | 994,160 |
| | <u> </u> | <u> </u> |
| Total net assets without donor restrictions | <u>1,821,436</u> | <u>1,419,779</u> |
| With donor restrictions | <u>713,926</u> | <u>923,600</u> |
| | <u> </u> | <u> </u> |
| Total net assets | <u>2,535,362</u> | <u>2,343,379</u> |
| | <u> </u> | <u> </u> |
| Total liabilities and net assets | <u>\$ 15,091,588</u> | <u>\$ 15,258,927</u> |

Regional Arts & Culture Council

Statement of Activities and Changes in Net Assets

| | Year Ended June 30, 2020 | | |
|---|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE | | | |
| Contract services | \$ 12,004,132 | \$ 77,739 | \$ 12,081,871 |
| Contributions and grants | 597,765 | 75,573 | 673,338 |
| Special events, net of expenses of \$58,604 | 20,761 | - | 20,761 |
| Investment return, net | 334,563 | - | 334,563 |
| Other revenue | 1,255 | - | 1,255 |
| Net assets released from restrictions – satisfaction of program restrictions | 362,986 | (362,986) | - |
| Total support and revenue | 13,321,462 | (209,674) | 13,111,788 |
| EXPENSES | | | |
| Program services | | | |
| Grants | 7,133,575 | - | 7,133,575 |
| Public art | 3,080,173 | - | 3,080,173 |
| Arts education | 786,470 | - | 786,470 |
| Advocacy | 68,398 | - | 68,398 |
| Community services | 324,973 | - | 324,973 |
| Total program services | 11,393,589 | - | 11,393,589 |
| Supporting services | | | |
| Management and general | 1,390,243 | - | 1,390,243 |
| Fundraising | 135,973 | - | 135,973 |
| Total supporting services | 1,526,216 | - | 1,526,216 |
| Total expenses | 12,919,805 | - | 12,919,805 |
| CHANGE IN NET ASSETS | 401,657 | (209,674) | 191,983 |
| NET ASSETS, beginning of year | 1,419,779 | 923,600 | 2,343,379 |
| NET ASSETS, ending of year | \$ 1,821,436 | \$ 713,926 | \$ 2,535,362 |

Regional Arts & Culture Council

Statement of Activities and Changes in Net Assets

| | Year Ended June 30, 2019 | | |
|---|-------------------------------|----------------------------|---------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Support and revenue: | | | |
| Contract services | \$ 12,049,245 | \$ 138,451 | \$ 12,187,696 |
| Contributions and grants | 303,725 | 121,896 | 425,621 |
| Special events, net of expenses of \$139,347 | (80,253) | 23,757 | (56,496) |
| Investment return, net | 320,071 | - | 320,071 |
| Other revenue | 47,322 | - | 47,322 |
| Interest from note receivable | 1,310 | - | 1,310 |
| 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 |
| Expenses: | | | |
| Program services: | | | |
| Grants | 7,914,879 | - | 7,914,879 |
| Public art | 1,748,329 | - | 1,748,329 |
| Arts education | 1,187,303 | - | 1,187,303 |
| Advocacy | 343,145 | - | 343,145 |
| Community services | 310,656 | - | 310,656 |
| Total program services | 11,504,312 | - | 11,504,312 |
| Supporting services: | | | |
| Management and general | 1,172,766 | - | 1,172,766 |
| Fundraising | 138,099 | - | 138,099 |
| Total supporting services | 1,310,865 | - | 1,310,865 |
| Total expenses | 12,815,177 | - | 12,815,177 |
| CHANGE IN NET ASSETS | 200,129 | (89,782) | 110,347 |
| NET ASSETS, beginning of year | 1,219,650 | 1,013,382 | 2,233,032 |
| NET ASSETS, ending of year | \$ 1,419,779 | \$ 923,600 | \$ 2,343,379 |

Regional Arts & Culture Council
Statement of Functional Expenses
Year Ended June 30, 2020

| | Grants | Public Art | Arts and Education | Advocacy | Community Services | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses |
|-----------------------------------|---------------------|---------------------|-----------------------|------------------|-----------------------|---------------------------|---------------------------|-------------------|---------------------------------|----------------------|
| Program services: | | | | | | | | | | |
| Grants | \$ 6,247,240 | \$ - | \$ - | \$ - | \$ - | \$ 6,247,240 | \$ - | \$ - | \$ - | \$ 6,247,240 |
| Artist fees and services | 150 | 1,588,494 | 290,136 | - | 1,450 | 1,880,230 | 100 | - | 100 | 1,880,330 |
| Professional services | 445,125 | 847,122 | 126,170 | 12,400 | 29,273 | 1,460,090 | 342,870 | 1,707 | 344,577 | 1,804,667 |
| Total program services | 6,692,515 | 2,435,616 | 416,306 | 12,400 | 30,723 | 9,587,560 | 342,970 | 1,707 | 344,677 | 9,932,237 |
| Supporting services: | | | | | | | | | | |
| Salaries and benefits | 334,905 | 488,000 | 278,979 | 39,671 | 226,554 | 1,368,109 | 984,097 | 102,131 | 1,086,228 | 2,454,337 |
| Rent | - | 7,335 | - | - | - | 7,335 | 222,723 | - | 222,723 | 230,058 |
| Other professional services | - | - | - | - | - | - | 65,841 | - | 65,841 | 65,841 |
| Conferences and meetings | 15,346 | 4,359 | 3,727 | 44 | 2,355 | 25,831 | 9,814 | - | 9,814 | 35,645 |
| Dues and subscriptions | 3,364 | 535 | 1,367 | 5,803 | 4,146 | 15,215 | 24,502 | 780 | 25,282 | 40,497 |
| Equipment maintenance | - | 7,847 | - | - | - | 7,847 | 16,807 | 3,295 | 20,102 | 27,949 |
| Transportation | 214 | 8,862 | 6,042 | 35 | 1,576 | 16,729 | 13,229 | 161 | 13,390 | 30,119 |
| Telephone | 1,038 | 2,480 | 792 | - | 1,182 | 5,492 | 23,937 | 175 | 24,112 | 29,604 |
| Depreciation | - | - | - | - | - | - | 22,765 | - | 22,765 | 22,765 |
| Supplies | 580 | 4,155 | 1,131 | 8 | 25 | 5,899 | 7,653 | 715 | 8,368 | 14,267 |
| Insurance | - | 3 | - | 150 | - | 153 | 13,431 | - | 13,431 | 13,584 |
| Equipment | 110 | 1,455 | 467 | - | 382 | 2,414 | 9,476 | - | 9,476 | 11,890 |
| Printing and advertising | 1,705 | 155 | 2,369 | 5 | 72 | 4,306 | 3,865 | 116 | 3,981 | 8,287 |
| Postage and shipping | 86 | 29 | 1,465 | 277 | 24 | 1,881 | 803 | 41 | 844 | 2,725 |
| Management and general allocation | 83,712 | 119,342 | 73,825 | 10,005 | 57,934 | 344,818 | (371,670) | 26,852 | (344,818) | - |
| Total supporting services | 441,060 | 644,557 | 370,164 | 55,998 | 294,250 | 1,806,029 | 1,047,273 | 134,266 | 1,181,539 | 2,987,568 |
| Total expenses | <u>\$ 7,133,575</u> | <u>\$ 3,080,173</u> | <u>\$ 786,470</u> | <u>\$ 68,398</u> | <u>\$ 324,973</u> | <u>\$ 11,393,589</u> | <u>\$ 1,390,243</u> | <u>\$ 135,973</u> | <u>\$ 1,526,216</u> | <u>\$ 12,919,805</u> |

Regional Arts & Culture Council
Statement of Functional Expenses
Year Ended June 30, 2019

| | Grants | Public Art | Arts and Education | Advocacy | Community Services | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses |
|-----------------------------------|---------------------|---------------------|-----------------------|-------------------|-----------------------|---------------------------|---------------------------|-------------------|---------------------------------|----------------------|
| Program services: | | | | | | | | | | |
| Grants | \$ 7,131,927 | \$ - | \$ - | \$ - | \$ - | \$ 7,131,927 | \$ - | \$ - | \$ - | \$ 7,131,927 |
| Artist fees and services | 1,250 | 937,464 | 423,585 | 980 | - | 1,363,279 | 3,425 | - | 3,425 | 1,366,704 |
| Professional services | 282,039 | 133,359 | 185,340 | 7,942 | 18,110 | 626,790 | 146,601 | 100 | 146,701 | 773,491 |
| 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 |
| 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 |
| Rent | - | 7,148 | - | - | - | 7,148 | 232,508 | - | 232,508 | 239,656 |
| Other professional services | - | - | - | - | - | - | 27,228 | - | 27,228 | 27,228 |
| Conferences and meetings | 25,378 | 6,764 | 4,458 | 1,734 | 3,178 | 41,512 | 20,410 | 126 | 20,536 | 62,048 |
| Dues and subscriptions | 4,270 | 837 | 1,176 | 3,449 | 2,035 | 11,767 | 30,126 | 97 | 30,223 | 41,990 |
| Equipment maintenance | - | 7,989 | 138 | 1,252 | - | 9,379 | 14,223 | 2,946 | 17,169 | 26,548 |
| Transportation | 1,053 | 12,684 | 13,034 | 1,716 | 2,020 | 30,507 | 17,038 | - | 17,038 | 47,545 |
| Telephone | 25 | 900 | 1,240 | 650 | 480 | 3,295 | 26,238 | - | 26,238 | 29,533 |
| Depreciation | - | - | 12,000 | - | - | 12,000 | 39,442 | - | 39,442 | 51,442 |
| Supplies | 448 | 4,402 | 2,724 | 1,872 | 235 | 9,681 | 10,654 | 26 | 10,680 | 20,361 |
| Insurance | 126 | - | 3 | - | - | 129 | 13,753 | - | 13,753 | 13,882 |
| Equipment | 3,000 | 3,475 | 864 | 309 | 324 | 7,972 | 19,149 | - | 19,149 | 27,121 |
| Printing and advertising | 2,451 | 1,570 | 6,159 | 1,249 | 308 | 11,737 | 9,348 | 797 | 10,145 | 21,882 |
| Postage and shipping | 140 | 807 | 150 | 567 | 242 | 1,906 | 785 | 49 | 834 | 2,740 |
| 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 |
| Total expenses | <u>\$ 7,914,879</u> | <u>\$ 1,748,329</u> | <u>\$ 1,187,303</u> | <u>\$ 343,145</u> | <u>\$ 310,656</u> | <u>\$ 11,504,312</u> | <u>\$ 1,172,766</u> | <u>\$ 138,099</u> | <u>\$ 1,310,865</u> | <u>\$ 12,815,177</u> |

Regional Arts & Culture Council

Statements of Cash Flows

| | Years Ended June 30, | |
|--|----------------------------|----------------------------|
| | 2020 | 2019 |
| CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 191,983 | \$ 110,347 |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation | 22,765 | 51,442 |
| Realized and unrealized gains on investments | (202,235) | (234,126) |
| Change in allowance for doubtful accounts | (4,012) | (14,671) |
| Change in discount on annuity receivable | (15,889) | (16,347) |
| Changes in operating assets and liabilities | | |
| Contributions and contracts receivable | (66,013) | 206,208 |
| Annuity receivable | 25,500 | 25,500 |
| Prepaid expenses and other assets | 17,580 | 60,581 |
| Accounts payable and accrued expenses | 1,290,775 | (17,035) |
| Grants payable | (902,278) | 351,301 |
| Refundable advance | 94,267 | - |
| Deferred revenue | (889,511) | (1,068,864) |
| Deferred rent | 47,425 | (15,080) |
| Net cash used in operating activities | <u>(389,643)</u> | <u>(560,744)</u> |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (9,499) | (22,173) |
| Purchases of investments | (2,302,389) | (9,508,091) |
| Proceeds from sales and maturities of investments | <u>5,414,519</u> | <u>5,509,986</u> |
| Net cash from (used in) investing activities | <u>3,102,631</u> | <u>(4,020,278)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | <u>2,712,988</u> | <u>(4,581,022)</u> |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>6,213,473</u> | <u>10,794,495</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u><u>\$ 8,926,461</u></u> | <u><u>\$ 6,213,473</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 72% of total support and revenues in 2020 and 2019, respectively. Other local public funders include Multnomah, Clackamas, and Washington Counties, and Metro, which provided a combined 19% and 16% in 2020 and 2019, respectively, including agency transactions.

RACC's service area includes more than 1.6 million residents, 250 not-for-profit arts and culture organizations, and countless artists of every discipline. Programs include:

- *Grants* – RACC distributed approximately \$6,600,000 and \$7,400,000 in grant funds in 2020 and 2019, respectively, and currently serves 648 individual artists and 286 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 40th year in 2020, 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* – Through January 28, 2020, the Right Brain Initiative was a program of RACC. As part of RACC, Right Brain provided integrated arts education experiences to K-8 students in 6 school districts and 1 ODE Charter School. RACC is now focusing on equitable arts education for K-5 students in Portland School Districts.
- *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. As a response to COVID-19, RACC advocated to state and local governments for relief support to artists and art organizations in the region. As a result of that effort, RACC received a commitment of \$15.9 million of relief funding allocated to the year ending June 30, 2021. 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 \$167,954 and \$327,000 was pledged in the campaign ending June 30, 2020 and 2019, 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 12,000 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.

Recently adopted standards

As of July 1, 2019, RACC adopted ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* on a modified prospective basis. This guidance is intended to improve the evaluation and determination of whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. In addition, the standard requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. There was no impact to RACC's financials as a result of the adoption of this standard.

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 8. 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. At June 30, 2020 and 2019, RACC did not have any net assets held 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 \$4,038 and \$8,050 at June 30, 2020 and 2019, 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, 2020 and 2019, all contributions and contracts receivable are due to be collected in 12 months or less.

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.

Contract services

Contract service revenues are recognized at the time services are provided. 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.

A portion of RACC's funding arrangements with the City of Portland, Multnomah, Washington, and Clackamas counties, Metro, and the Oregon Arts Commission are considered fee-for-service contractual relationships. The remainder is considered a contribution in accordance with ASU 2018-08.

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 revenue when the assets are received. RACC recognizes these amounts as “pass-through” or “agency” transactions in accordance with appropriate accounting standards.

Contributions and grants

Contributions and grants are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give -- that is, those with a measurement performance obligation or other barrier and a right of return -- are not recognized until the conditions on which they depend have been substantially met.

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.

Paycheck Protection Program revenue recognition

In April 2020, RACC received a loan under the Small Business Association's Paycheck Protection Program from Key Bank in the amount of \$558,700. It is RACC's policy to account for this funding as a conditional contribution in accordance with ASU No. 2018-08. Upon receipt, the cash inflow is recorded as a refundable advance. This refundable advance is reduced as the barriers are overcome and RACC is entitled to the assets and the conditions of release have been substantially met or explicitly waived. Management has determined the barriers have been overcome when expenses are incurred. As of June 30, 2020, RACC had recorded \$94,267 as a refundable advance. The remaining amount was recorded as contributions and grants on the statements of activities and changes in net assets for the year ended June 30, 2020.

In-kind donations

In-kind donations are recorded as contributions at their fair value at the time of donation with a corresponding charge to expense or property and equipment, as appropriate. In-kind donations totaled \$49,368 and \$33,981 for the years ended June 30, 2020 and 2019, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

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 based on full-time equivalents dedicated to each program or supporting service, as well as salaries and benefits and other professional services, which are allocated on the basis 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.

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, 2020 or 2019. RACC files an exempt organization return in the U.S. federal, state, and local jurisdictions.

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 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 January 22, 2021, which is the date the financial statements were available to be issued. See Note 16.

Regional Arts & Culture Council

Notes to Financial Statements

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:

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 8,926,461 | \$ 6,213,473 |
| Contributions and contracts receivable, net | 590,911 | 520,886 |
| Investments | 5,146,207 | 8,056,102 |
| | <u>14,663,579</u> | <u>14,790,461</u> |
| Less: Amounts recorded in grants payable | (1,061,090) | (1,963,368) |
| Amounts recorded in deferred revenue | (9,724,488) | (10,613,999) |
| Amounts recorded in refundable advance | (94,267) | - |
| Amounts with donor restrictions | <u>(713,926)</u> | <u>(923,300)</u> |
| | <u>\$ 3,069,808</u> | <u>\$ 1,289,794</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 \$1,198,977 and \$994,160 at June 30, 2020 and June 30, 2019, respectively. This amount could be used for general expenditure upon approval by the Board.

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. Through January 28, 2020, the proceeds from this annuity are restricted for use by the Right Brain Initiative. RACC is working with the donor to determine if these funds may now be used more broadly for arts education.

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

| | 2020 | 2019 |
|--------------------|-------------------|-------------------|
| Annuity receivable | \$ 484,500 | \$ 510,000 |
| Discount | <u>(176,324)</u> | <u>(192,213)</u> |
| | <u>\$ 308,176</u> | <u>\$ 317,787</u> |

Regional Arts & Culture Council

Notes to Financial Statements

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.

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:

| | 2020 | 2019 |
|-------------------------|---------------------|---------------------|
| Equities | \$ 1,255,589 | \$ 1,239,648 |
| Fixed income | | |
| U.S. treasuries | 1,923,954 | 4,831,152 |
| Agency securities | 830,568 | 730,618 |
| Corporate bonds | 798,934 | 946,306 |
| Municipal bonds | 279,834 | 257,081 |
| Certificates of deposit | 57,328 | 51,297 |
| | <u>\$ 5,146,207</u> | <u>\$ 8,056,102</u> |

Regional Arts & Culture Council

Notes to Financial Statements

Note 5 – Fair Value of Investments (continued)

All of these investments, except for certificates of deposit, are considered to be Level 1 at June 30, 2020 and 2019. RACC considers certificates of deposit to be Level 2 investments at June 30, 2020 and 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, 2020 or 2019. There were no changes in valuation methodologies or assumptions during the years ended June 30, 2020 or 2019. 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:

| | 2020 | 2019 |
|-------------------------------|------------------|------------------|
| Office and computer equipment | \$ 412,586 | \$ 403,087 |
| Leasehold improvements | 165,532 | 165,532 |
| Less accumulated depreciation | (542,086) | (519,321) |
| | <u>\$ 36,032</u> | <u>\$ 49,298</u> |

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:

| | 2020 | 2019 |
|-------------------------------------|---------------------|----------------------|
| Deferred revenue, beginning of year | \$ 10,613,999 | \$ 11,682,863 |
| Cash receipts | 11,192,360 | 11,118,832 |
| Recognized as revenue | (12,081,871) | (12,187,696) |
| Deferred revenue, end of year | <u>\$ 9,724,488</u> | <u>\$ 10,613,999</u> |

Regional Arts & Culture Council

Notes to Financial Statements

Note 8 – 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:

| | 2020 | 2019 |
|-------------------------------|---------------------|-------------------|
| Public art | \$ 1,010,306 | \$ 797,074 |
| Grants and community services | 184,004 | 145,157 |
| Arts education | - | 51,929 |
| Management and general | 4,667 | - |
| | <u>\$ 1,198,977</u> | <u>\$ 994,160</u> |

Note 9 – Net Assets with Donor Restrictions

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

| | 2020 | 2019 |
|-------------------------------|-------------------|-------------------|
| Arts education | \$ 333,175 | \$ 629,426 |
| Grants and community services | 319,624 | 255,146 |
| Public art | 61,127 | 39,028 |
| | <u>\$ 713,926</u> | <u>\$ 923,600</u> |

Note 10 – 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, 2020:

| | 2020 | 2019 |
|-------------------------------|-------------------|-------------------|
| Arts education | \$ 308,745 | \$ 285,200 |
| Grants and community services | 38,950 | 85,500 |
| Public art | 12,291 | 12,291 |
| Project grants | 3,000 | 3,000 |
| Management and general | - | 3,186 |
| | <u>\$ 362,986</u> | <u>\$ 389,177</u> |

Regional Arts & Culture Council

Notes to Financial Statements

Note 11 – 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 \$111,709 and \$127,817 for the years ended June 30, 2020 and 2019, respectively.

Note 12 – Lease Commitments

RACC leases its offices under an operating lease which expires August 2026. Facility rent expense was \$231,169 and \$239,656 for the years ended June 30, 2020 and 2019, respectively. RACC also leases various office equipment under operating leases which expire March 2024. Total equipment rent expense was \$8,640 and \$9,624 for the years ended June 30, 2020 and 2019, respectively. Total future lease commitments are as follows:

| | |
|----------------------------|---------------------|
| Years ending June 30, 2021 | \$ 222,494 |
| 2022 | 227,050 |
| 2023 | 231,398 |
| 2024 | 233,685 |
| 2025 | 240,695 |
| Thereafter | <u>290,369</u> |
| | <u>\$ 1,445,691</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, 2020 and 2019, deferred rent of \$65,803 and \$18,378, respectively, has been recognized as a liability in the statements of financial position.

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 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.

Regional Arts & Culture Council

Notes to 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 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:

| 2020 | | | | | | |
|-----------------------------|---------------------|---------------------|------------------------------|---|---|---------------------|
| | Funds Received | Funds Spent | Funds Carried over from 2019 | Adjustments to Funds Carried over from 2019 | Spent (Returned) Funds Carried over from 2019 | Remaining Funds |
| Arts education coordination | \$ - | \$ - | \$ 338,347 | \$ - | \$ 107,145 | \$ 231,202 |
| General operating support | 3,866,849 | 1,167,573 | 3,006,129 | 1,299 | 3,007,614 | 2,699,090 |
| Cultural access grants | 241,016 | 3,250 | 299,536 | - | 299,536 | 237,766 |
| | <u>\$ 4,107,865</u> | <u>\$ 1,170,823</u> | <u>\$ 3,644,012</u> | <u>\$ 1,299</u> | <u>\$ 3,414,295</u> | <u>\$ 3,168,058</u> |
| 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> |

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.

Regional Arts & Culture Council

Notes to Financial Statements

Note 15 – Uncertainty Related to COVID-19 Pandemic

Since March 2020, financial markets and economic conditions have undergone a significant negative impact as a result of the COVID-19 global pandemic. The extent of the impact of COVID-19 on RACC's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the related impact on contributors and grantors, employees, and vendors, all of which are uncertain and cannot be predicted. As such, the extent to which COVID-19 may impact RACC's financial position and results of operations cannot be reasonably estimated at this time.

Note 16 – Subsequent Events

Subsequent to year-end, RACC entered into a grant agreement with Oregon Business Development Department and Multnomah County Cultural Coalition to serve as the fiscal sponsor to distribute \$13,217,905 to selected grant recipients. Grant recipients have been identified by Multnomah County Cultural Coalition and RACC's responsibility is to act as an agent to disburse the funds to those organizations. All payments were to be paid by October 23, 2020.

Additionally, RACC received \$2,690,000 from the City of Portland through the Coronavirus Relief Fund to be used for Portland-based venues with a priority on black-owned and operated venues and for artists in the Black, Indigenous, and People of Color (BIPOC) community.

Supplementary Information

Regional Arts & Culture Council
Schedule of Agency Transactions
For the Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Contributions and grants revenue | \$ 673,338 | \$ 425,621 |
| Agency transactions:* | | |
| Work for art donor designations | <u>64,167</u> | <u>108,904</u> |
| Total contributions and agency transactions | <u>\$ 737,505</u> | <u>\$ 534,525</u> |
| Contract services revenue | \$ 12,081,871 | \$ 12,187,696 |
| Agency transactions:* | | |
| Clackamas County Arts Action Alliance | 20,000 | 20,000 |
| Cultural Coalition of Washington County | 52,750 | 65,915 |
| Multnomah County Cultural Coalition | 70,455 | 87,860 |
| Tualatin Valley Creates | <u>107,823</u> | <u>-</u> |
| Total contract services and agency transactions | <u>\$ 12,332,899</u> | <u>\$ 12,361,471</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.

