

**RICHMOND ART CENTER
RICHMOND, CALIFORNIA**

FINANCIAL STATEMENTS

JUNE 30, 2016

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R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Richmond Art Center
Richmond, California

Report on the Financial Statements

We have audited the accompanying financial statements of Richmond Art Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, 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 organization'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 organization'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richmond Art Center as of June 30, 2016, 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.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
January 26, 2017

Richmond Art Center
STATEMENTS OF FINANCIAL POSITION
June 30, 2016

2016

ASSETS

Current assets:

| | |
|--|-------------------|
| Unrestricted cash and investments | \$ 703,905 |
| Restricted cash and investments - endowment fund | 32,894 |
| Accounts receivable | 70,460 |
| Grants receivable, current portion | 85,000 |
| Prepaid expenses and other | <u>31,275</u> |
| Total current assets | <u>923,534</u> |
| Non-current assets: | |
| Grants receivable, non-current portion | - |
| Fixed assets, net of accumulated amortization | <u>20,492</u> |
| Total non-current assets | <u>20,492</u> |
| Total assets | <u>\$ 944,026</u> |

LIABILITIES AND NET ASSETS

Current liabilities:

| | |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 40,132 |
| Deferred revenue | <u>79,600</u> |
| Total current liabilities | <u>119,732</u> |

Net assets - Exhibit A:

| | |
|-----------------------------------|-------------------|
| Unrestricted | 534,620 |
| Temporarily restricted net assets | 256,780 |
| Permanently restricted net assets | <u>32,894</u> |
| Total net assets | <u>824,294</u> |
| Total liabilities and net assets | <u>\$ 944,026</u> |

The accompanying notes are an integral part of these financial statements.

Richmond Art Center
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2016

Exhibit A

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------------|--------------------------|-------------------------------|-------------------------------|--------------------------|
| Revenues: | | | | |
| Donations & grants | \$ 136,678 | \$ 148,342 | \$ - | \$ 285,020 |
| Class registration fees | 341,036 | - | - | 341,036 |
| Government grants | 375,000 | - | - | 375,000 |
| Exhibition income | 35,607 | 45,883 | - | 81,490 |
| Fees for service | 58,364 | - | - | 58,364 |
| Membership dues & fees | 42,262 | - | - | 42,262 |
| Miscellaneous income | 2,569 | - | - | 2,569 |
| Rental income | 8,658 | - | - | 8,658 |
| Fundraising | 32,327 | 6,100 | - | 38,427 |
| Investment income | 3,052 | - | 680 | 3,732 |
| Net assets released from restriction | <u>319,828</u> | <u>(319,828)</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>1,355,381</u> | <u>(119,503)</u> | <u>680</u> | <u>1,236,558</u> |
| Expenses: | | | | |
| Program services | 917,707 | - | - | 917,707 |
| General and administrative | 262,352 | - | - | 262,352 |
| Fundraising | <u>87,290</u> | <u>-</u> | <u>-</u> | <u>87,290</u> |
| Total expenses | <u>1,267,349</u> | <u>-</u> | <u>-</u> | <u>1,267,349</u> |
| Change in net assets | 88,032 | (119,503) | 680 | (30,791) |
| Net assets, beginning of period | <u>446,588</u> | <u>376,283</u> | <u>32,214</u> | <u>855,085</u> |
| Net assets, end of period | <u>\$ 534,620</u> | <u>\$ 256,780</u> | <u>\$ 32,894</u> | <u>\$ 824,294</u> |

The accompanying notes are an integral part of these financial statements.

Richmond Art Center
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

Exhibit B

| | Studio Art | Art in Community | Exhibition | Membership & Marketing | Total Program | Supporting Services | | Total |
|----------------------------------|---------------|---------------------|------------|---------------------------|------------------|---------------------|--------------|--------------|
| | | | | | | Management | & General | |
| Expenses: | | | | | | | | |
| Salaries and wages | \$ 322,444 | \$ 201,300 | \$ 96,108 | \$ 31,189 | \$ 651,041 | \$ 141,206 | \$ 60,615 | \$ 852,862 |
| Payroll taxes | 55,602 | 20,754 | 8,769 | 2,691 | 87,816 | 21,957 | 5,661 | 115,434 |
| Employee benefits | 5,589 | 8,315 | 4,400 | 3,549 | 21,853 | 9,840 | 2,800 | 34,493 |
| Contract services | 9,776 | 665 | 4,977 | - | 15,418 | 12,501 | 4,159 | 32,078 |
| Program supplies | 11,161 | 13,188 | 4,385 | - | 28,734 | 3,869 | 526 | 33,129 |
| Staff development and recruiting | 419 | 523 | - | - | 942 | 7,994 | - | 8,936 |
| Office expense | - | - | - | - | - | 1,750 | - | 1,750 |
| Merchant charges | 15,881 | - | 174 | 2,354 | 18,409 | 1,875 | 1,049 | 21,333 |
| Advertising and promotion | 2,298 | - | - | 6,363 | 8,661 | - | - | 8,661 |
| Insurance | - | - | 7,824 | - | 7,824 | 8,344 | - | 16,168 |
| Printing and reproduction | 10,287 | - | 8,834 | 60 | 19,181 | 4,055 | 2,997 | 26,233 |
| Art tours and program events | 2,524 | 200 | 6,454 | - | 9,178 | - | - | 9,178 |
| Repairs and maintenance | 634 | - | - | - | 634 | 5,473 | - | 6,107 |
| Postage and shipping | 1,330 | - | 1,259 | - | 2,589 | 3,100 | 1,250 | 6,939 |
| Art sales commission | - | - | 13,632 | - | 13,632 | - | - | 13,632 |
| Fundraising expenses | - | - | - | - | - | - | 7,599 | 7,599 |
| Depreciation | - | - | - | - | - | 4,052 | - | 4,052 |
| Payroll service fees | - | - | - | - | - | 5,099 | - | 5,099 |
| Accounting | - | - | - | - | - | 10,075 | - | 10,075 |
| Training and vetting | 466 | 362 | - | - | 828 | - | - | 828 |
| Professional development | - | 17,296 | - | - | 17,296 | - | - | 17,296 |
| Website management | - | - | - | 2,348 | 2,348 | - | - | 2,348 |
| Travel & meetings | - | 1,331 | - | - | 1,331 | 38 | 634 | 2,003 |
| Dues and subscriptions | - | - | - | 1,025 | 1,025 | 300 | - | 1,325 |
| Information technology | - | - | - | - | - | 18,568 | - | 18,568 |
| Equipment rental | - | - | - | - | - | 2,120 | - | 2,120 |
| Miscellaneous | 8,967 | - | - | - | 8,967 | - | - | 8,967 |
| Volunteer program | - | - | - | - | - | 136 | - | 136 |
| Licenses & permits | - | - | - | - | - | - | - | - |
| Total expenses | \$ 447,378 | \$ 263,934 | \$ 156,816 | \$ 49,579 | \$ 917,707 | \$ 262,352 | \$ 87,290 | \$ 1,267,349 |

The accompanying notes are an integral part of these financial statements.

Richmond Art Center
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2016

Exhibit C

| | <u>2016</u> |
|--|-------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ (30,791) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 4,052 |
| Changes in certain assets and liabilities: | |
| Grants receivable | 120,000 |
| Accounts receivable | (66,544) |
| Prepaid expenses | (24,307) |
| Deferred revenue | 1,661 |
| Accounts payable and accrued expenses | <u>13,578</u> |
| Net cash provided (used) by operating activities | <u>17,649</u> |
| Cash flows from investing activities: | |
| Acquisition of fixed assets | <u>(15,926)</u> |
| Net cash provided (used) by investing activities | <u>(15,926)</u> |
| Prior year adjustment | 34 |
| Net increase (decrease) in cash during the period | 1,723 |
| Cash and cash equivalents, beginning of period | <u>735,042</u> |
| Cash and cash equivalents, end of period | <u>\$ 736,799</u> |

The accompanying notes are an integral part of these financial statements.

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - GENERAL

The Richmond Art Center (Art Center) is a dynamic arts not-for-profit organization founded in 1936 that empowers and transforms individuals and the community through creative exploration, experience and education.

Studio Art - The Art Center provided more than 275 studio art classes and workshops in painting, drawing, mixed media, book arts/collage, sculpture, ceramics, textiles/fiber arts, metal/jewelry and printmaking. The classes were taught by 75 teaching artists and enjoyed by nearly 2000 students in six fully equipped art studios. In addition, the Art Center offers open studios for practicing artists and students of all ages to extend time for art-making. While classes are mostly fee-based, scholarships are available for youth and adults.

Art in Community - The Art in Community program provided free after school art activities in ceramics, jewelry, fashion design, photography and mixed media at 10 West Contra Costa Unified School District schools, 11 community centers, residential villages and the Richmond Public Library, engaging over 2000 elementary and middle school and high students. These activities also included a tour of current Art Center exhibitions incorporating related art-making projects. The Art Center conducted its second in-school artists-in-residence workshops to the entire Washington Elementary School's 435 student population. The Art Center provided professional development for 16 teaching artists to incorporate STEM into their art curriculum, forming STEAM (Science, Technology, Engineering, Art and Math). The Art Center also provided 3 professional workshops for 50 West Contra Costa Unified School District Elementary School teachers to incorporate STEAM-based curriculum into the curriculum. The Art Center also provided a series of free family weekend activities to encourage multi-generational learning including Skeleton Fest, Jazz as Art and Upcycle!

Exhibition - More than 14,000 people attended 14 art exhibitions presented by the Art Center in four spacious galleries. The exhibitions featured the works of 630 aspiring, emerging and established Bay Area artists in various mediums of the fine arts and contemporary crafts. The Art Center presented 18 lectures/films and demonstrations by exhibiting and visiting artists, art critics and historians enriching the creative experiences of artists, students and visitors.

Membership & Marketing - Membership is a benefit the Art Center offers to its constituents who pay dues and receive certain discounts and benefits. The dues received support the Art Center's operation. Marketing promotes and maintains the Art Center's brand, programs (Exhibition, Studio and AIC), events through the printed and electronic media, and social media.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements and records of the Art Center are prepared on the accrual basis of accounting and, therefore, include all support and revenues when earned and all expenses when incurred, regardless of whether the support and revenues or expenses were received or paid as of the end of a period. Grants are recognized as support when earned in accordance with the terms of each grant or agreement.

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

The financial statements of the Art Center have been prepared on the accrual basis in conformity with generally accepted accounting principles. The statements are presented in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958-205), *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Art Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

C. Unrestricted Net Assets

Unrestricted net assets generally result from revenues obtained by receiving unrestricted contributions, and receiving interest and dividends from income-producing assets. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Art Center and the purposes specified in its Articles of Incorporation or Bylaws and limits resulting from contractual agreements entered into by the Art Center in the course of its operations.

D. Temporarily Restricted Net Assets

Temporarily restricted net assets represent the portion of net assets that contains donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Art Center.

E. Permanently Restricted Net Assets

Permanently restricted net assets represent the portion of net assets that contains donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Art Center.

F. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include all cash accounts that are not subject to withdrawal restrictions or penalties and all highly liquid investments purchased with a maturity of three months or less.

G. Investments

Investments with readily determinable fair values are reported at fair value, with current period recognition of increases or decreases in fair value shown in the statement of activities.

H. Fixed Assets

The Art Center capitalizes all expenditures for property and equipment in excess of \$1,000. Property and equipment is valued at cost or estimated fair value on the date of donation and is depreciated on the straight-line basis over useful lives of 5 to 7 years.

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Contributions

Contributions are recognized at their fair value when the donor makes an unconditional promise to give to the Art Center. Contributions restricted by the donor are reported as an increase in unrestricted net assets if the restriction is released in the same reporting period in which the support is received. All other contributions with donor restrictions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

J. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

K. Risk Management

The Art Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Art Center carries commercial insurance.

L. Income Taxes

The Art Center is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Art Center is also exempt from California franchise taxes and, therefore, has made no provision for Federal or California income taxes. In addition, the Art Center has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 501(a) of the Code.

The Art Center adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Art Center has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Art Center believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Art Center’s financial condition, results of operations or cash flows. Accordingly, the Art Center has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2016. The Art Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. Fair Value Measurements

FASB ASC 820-10 and subsections, *Fair Value Measurements and Disclosures* clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. The Art Center has adopted FASB ASC 820-10 for its financial assets and liabilities measured on a recurring and nonrecurring basis.

FASB ASC 820-10 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)

Level 3: Significant unobservable inputs (including the Art Center's own assumptions in determining the fair value of investments).

The inputs and methodology used for valuing the Art Center's financial assets and liabilities are not indicators of the risks associated with those investments.

NOTE 3 - CASH AND INVESTMENTS

Cash and investment balances at June 30, 2016 are as follows:

| | Level 1 | Level 2 | Total |
|--|-------------------|-------------------|-------------------|
| Unrestricted: | | | |
| Cash and equivalents in banks | \$ 610,417 | \$ - | \$ 610,417 |
| Cash on hand | 200 | - | 200 |
| Investments | <u>-</u> | <u>93,288</u> | <u>93,288</u> |
| Sub-total | <u>610,617</u> | <u>93,288</u> | <u>703,905</u> |
| Restricted endowment funds: | | | |
| Cash and equivalents | 3,073 | - | 3,073 |
| Investments | <u>-</u> | <u>29,821</u> | <u>29,821</u> |
| Sub-total | <u>3,073</u> | <u>29,821</u> | <u>32,894</u> |
| Total cash and investments | <u>\$ 613,690</u> | <u>\$ 123,109</u> | <u>\$ 736,799</u> |

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - GRANTS RECEIVABLE

Grants receivable at June 30, 2016 consisted of the following:

| | <u>2016</u> |
|-------------------------------------|------------------|
| Reuben & Muriel Savin Foundation | \$ 20,000 |
| Dean and Margaret Lesher Foundation | 35,000 |
| Chamberlin Family Foundation | <u>30,000</u> |
| Total | <u>\$ 85,000</u> |

The Art Center has not accrued a loss for allowances for uncollectible receivables since it is the opinion of management that it is highly probable that all receivables will be collected.

NOTE 5 - FIXED ASSETS

Fixed assets as of June 30, 2016 consisted of the following:

| | Balance 7/1/15 | Additions | Deletions | Balance 6/30/16 |
|--------------------------|-------------------|------------------|-------------|--------------------|
| Furniture and equipment | <u>\$ 38,774</u> | <u>\$ 15,926</u> | <u>\$ -</u> | <u>\$ 54,700</u> |
| Total cost | 38,774 | <u>\$ 15,926</u> | <u>\$ -</u> | 54,700 |
| Accumulated depreciation | <u>(30,155)</u> | | | <u>(34,207)</u> |
| Net capital assets | <u>\$ 8,619</u> | | | <u>\$ 20,493</u> |

Depreciation expense for the year ended June 30, 2016 totaled \$4,052.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 were available for the following programs:

| | |
|------------------------|-------------------|
| Studio Art | \$ 100,421 |
| Art in Community | 145,005 |
| Exhibition | 24,380 |
| General administration | <u>28,848</u> |
| Total | <u>\$ 298,654</u> |

NOTE 7 - ENDOWMENT FUND

Permanently restricted net assets consist of donations that the funders intend to create a permanent endowment for the Art Center. The endowment fund was set up on October 12, 1998 to solicit and receive contributions to further the work of the Art Center and to provide a permanent and reliable source of funding for its operations and to assist the Art Center in carrying out its mission. The trustees are to pay over to the Art Center the annual net income, excluding contributions to the Fund, from investments in the Endowment Fund.

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 - ENDOWMENT FUND (concluded)

As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

A. Return Objective and Risk Parameters

The Art Center has adopted an investment policy with the primary investment objective to attempt to maximize total return, that is, the aggregate return from capital appreciation and dividend and interest income, while assuming an appropriate level of risk given the nature of the funds under management. Specifically, the primary objective in the investment management of the Endowment Fund shall be:

- Long-Term growth of capital - to emphasize the Long-Term growth of principal while avoiding excessive risk. Short-term volatility consistent with the volatility of a comparable market index is anticipated, though management should strive to contain it.
- Preservation of purchasing power - to achieve returns in excess of the rate of inflation over the investment time horizon in order to preserve purchasing power of agency and Trust assets. Risk control is an important element in the investment of Trust assets.

B. Strategies Employed for Achieving Objectives

Endowment assets are invested in mutual funds. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Changes in Endowment Net Assets for the fiscal year ended June 30, 2016 are as follows:

| | Unrestricted | Restricted | Permanently Total |
|---------------------------------------|---------------|------------------|----------------------|
| Beginning balance – July 1, 2015 | \$ - | \$ 32,214 | \$ 32,214 |
| Dividends and realized gains (losses) | - - | 818 | 818 |
| Unrealized gains (losses) | - - | (138) | (138) |
| Ending balance – June 30, 2016 | <u>\$ - -</u> | <u>\$ 32,894</u> | <u>\$ 32,894</u> |

NOTE 8 - NET ASSETS RELEASED FROM RESTRICTIONS

For the year ended June 30, 2016, net assets were released from restriction for the following:

| | 2016 |
|------------------------|-------------------|
| Studio Art | \$ 23,898 |
| Art in Community | 198,047 |
| Exhibition | 73,508 |
| General administration | 20,000 |
| Total | <u>\$ 315,453</u> |

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 - LEASE AGREEMENT

The Art Center pays no rent for the usage of the space and facilities. The value of the annual use of the property is impracticable to calculate and, therefore, has not been recorded as an in-kind contribution.

NOTE 10 - INCOME STATEMENT

The Art Center anticipated the current year deficit. It was determined in the budget plan that the deficit would be offset with restricted and unrestricted reserve funds received in the prior fiscal year(s).

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the Art Center has evaluated events and transactions for potential recognition or disclosure through January 26, 2017, the date the financial statements were issued.