

**RICHMOND ART CENTER
RICHMOND, CALIFORNIA**

FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITOR'S 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, 2018, 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, 2018, 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
November 26, 2018

Richmond Art Center
STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 928,795
Investments and endowment fund	268,844
Grants receivable	17,800
Accounts receivable	450
Prepaid expenses and other current assets	<u>46,809</u>
Total current assets	<u>1,262,698</u>

Non-current assets:

Fixed assets, net of accumulated depreciation	<u>25,716</u>
Total non-current assets	<u>25,716</u>

Total assets \$ 1,288,414

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 44,462
Deferred revenue	<u>123,839</u>
Total current liabilities	<u>168,301</u>

Net assets - Exhibit A:

Unrestricted	868,304
Temporarily restricted	212,279
Permanently restricted	<u>39,530</u>
Total net assets	<u>1,120,113</u>

Total liabilities and net assets \$ 1,288,414

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

Richmond Art Center
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Exhibit A

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Donations & grants	\$ 161,907	\$ 196,928	\$ -	\$ 358,835
Class registration fees	346,978	-	-	346,978
Government grants	350,000	-	-	350,000
Fees for service	71,361	-	-	71,361
Membership dues & fees	45,011	-	-	45,011
Miscellaneous income	26,844	-	-	26,844
Rental income	7,818	-	-	7,818
Fundraising	29,970	39,944	-	69,914
Investment income	6,524	-	2,858	9,382
Net assets released from restriction	323,898	(323,898)	-	-
Total revenues	1,370,311	(87,026)	2,858	1,286,143
Expenses:				
Program services	936,197	-	-	936,197
General and administrative	239,852	-	-	239,852
Fundraising	71,348	-	-	71,348
Total expenses	1,247,397	-	-	1,247,397
Change in net assets	122,914	(87,026)	2,858	38,746
Net assets, beginning of period	745,390	299,305	36,672	1,081,367
Net assets, end of period	\$ 868,304	\$ 212,279	\$ 39,530	\$ 1,120,113

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

Richmond Art Center
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

Exhibit B

	Program Services				Supporting Services			
	Studio Art	Art in Community	Exhibition	Membership & Marketing	Total Program Services	Management & General	Fundraising	
Expenses:								
Salaries and wages	\$ 335,627	\$ 204,249	\$ 95,423	\$ 48,494	\$ 683,793	\$ 125,151	\$ 50,563	\$ 859,507
Payroll taxes	34,465	18,141	8,711	4,233	65,550	11,079	6,675	83,304
Employee benefits	10,389	10,774	-	4,800	25,963	7,749	-	33,712
Contract services	4,523	-	10,985	-	15,508	4,569	-	20,077
Program supplies	29,927	19,221	6,660	-	55,808	5,134	77	61,019
Staff development and recruiting	1,848	547	1,535	-	3,930	4,425	-	8,355
Facilities lease	-	-	-	-	-	25,008	-	25,008
Merchant charges	13,264	-	-	1,800	15,064	3,006	545	18,615
Advertising and promotion	2,464	-	-	10,420	12,884	-	-	12,884
Insurance	-	-	4,800	-	4,800	14,214	-	19,014
Printing and reproduction	6,708	-	3,466	967	11,141	1,977	1,378	14,496
Art tours and program events	3,146	2,044	2,421	-	7,611	-	-	7,611
Repairs and maintenance	1,338	-	-	-	1,338	8,324	-	9,662
Postage and shipping	1,493	-	1,525	225	3,243	993	1,862	6,098
Art sales commission	-	-	6,862	-	6,862	-	-	6,862
Fundraising expenses	-	-	-	-	-	-	9,978	9,978
Depreciation	-	-	-	-	-	7,426	-	7,426
Payroll service fees	-	-	-	-	-	4,439	-	4,439
Accounting	-	-	-	-	-	1,400	-	1,400
Training and vetting	238	391	-	-	629	-	-	629
Professional development	-	8,616	-	-	8,616	-	-	8,616
Website management	-	-	-	919	919	-	-	919
Travel & meetings	-	1,406	-	-	1,406	-	270	1,676
Dues and subscriptions	-	-	-	550	550	240	-	790
Information technology	-	-	-	-	-	7,840	-	7,840
Equipment	-	-	-	-	-	6,641	-	6,641
Miscellaneous	10,582	-	-	-	10,582	-	-	10,582
Volunteer program	-	-	-	-	-	237	-	237
	\$ 456,012	\$ 265,389	\$ 142,388	\$ 72,408	\$ 936,197	\$ 239,852	\$ 71,348	\$ 1,247,397
Total expenses	\$ 456,012	\$ 265,389	\$ 142,388	\$ 72,408	\$ 936,197	\$ 239,852	\$ 71,348	\$ 1,247,397

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

Richmond Art Center
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

Exhibit C

Cash flows from operating activities:	
Change in net assets	\$ 38,746
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,426
Changes in certain assets and liabilities:	
Grants receivable	43,725
Accounts receivable	(450)
Prepaid expenses and other current assets	(46,139)
Deferred revenue	41,284
Accounts payable and accrued expenses	9,310
Net cash provided (used) by operating activities	<u>93,902</u>
Cash flows from investing activities:	
Acquisition of fixed assets	(9,129)
Purchase of investments	<u>(93,292)</u>
Net cash provided (used) by investing activities	<u>(102,421)</u>
Net increase in cash during the period	(8,519)
Cash balance, beginning of period	<u>937,314</u>
Cash balance, end of period	<u>\$ 928,795</u>

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

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - GENERAL

A. Mission

The Richmond Art Center (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.

B. Programs

Studio Art - The Center provided more than 242 studio art classes and workshops in painting, drawing, mixed media, book arts/collage, sculpture, ceramics, textiles/fiber arts, metal/jewelry and silk-screening. The classes were taught by 40 + teaching artists and enjoyed by more than 1,800 students in six art studios. In addition, the Center offers open studios for practicing artists and students of all ages to extend time for art-making. The Center presented 13 lectures/films and demonstrations by exhibiting and visiting artists enriching the creative experiences of artists, students and visitors. 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 and in-school art activities in a variety of media at 10 West Contra Costa Unified School District schools, 5 community centers and the Richmond Public Library, engaging over 1,800 elementary and middle school students. These activities also included a tour of current Center exhibitions incorporating related art-making projects. The Center provides 2 professional workshops for 45 West Contra Costa Unified School District Elementary School teachers to incorporate art into their curriculum. The Center also provided a series of free family weekend activities to encourage multi-generational learning.

Exhibition - More than 14,000 people attended 14 art exhibitions presented by the Center in four galleries. The exhibitions featured the works of 734 aspiring, emerging and established Bay Area artists in various mediums of the fine arts and contemporary crafts. The exhibition program also includes the annual Members show and The Art of Living Black show as well as the annual West Contra Costa Unified School District and the Art in the Community Student shows.

Membership & Marketing - Membership is a benefit the Center offers to its constituents who pay dues and receive certain discounts and benefits. The dues received support the Center's operation. Marketing promotes and maintains the Center's brand, programs (Exhibition, Studio and AIC), and 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 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, 2018

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

The financial statements of the 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 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 Center and the purposes specified in its Articles of Incorporation or Bylaws and limits resulting from contractual agreements entered into by the 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 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 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 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, 2018

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (concluded)

I. Contributions

Contributions are recognized at their fair value when the donor makes an unconditional promise to give to the 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 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 Center carries commercial insurance.

L. Income Taxes

The Center is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is also exempt from California franchise taxes and, therefore, has made no provision for Federal or California income taxes. In addition, the 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 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 Center has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The 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 Center's financial condition, results of operations or cash flows. Accordingly, the Center has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2018. The 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, 2018

NOTE 3 - CASH AND CASH EQUIVALENTS

The cash balances at June 30, 2018 are as follows:

Citibank	\$	249,568
Mechanics Bank		186,575
Wells Fargo		249,425
Chase		243,027
Cash on hand		200
Total	\$	928,795

The account balances with Citibank, Mechanics Bank, Wells Fargo Bank, and Chase Bank were insured under the \$250,000 blanket umbrella by the Federal Deposit Insurance Corporation (FDIC). It is the opinion of management that the solvency of the financial institutions is not of particular concern at this time.

NOTE 4 - SUMMARY OF FAIR VALUE EXPOSURE

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 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 Center's own assumptions in determining the fair value of investments).

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

The following table provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2018:

Level 1: Quoted Prices	\$	268,844
Level 2: Other significant observable inputs		-
Level 3: Significant unobservable inputs		-
Total	\$	268,844

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 4 - SUMMARY OF FAIR VALUE EXPOSURE (concluded)

FSP FAS 157-4, which supersedes FSP FAS 157-3, provides further clarification on SFAS 157 in determining an inactive market and a non-distressed transaction. The above investments for June 30, 2018 are further classified in accordance with FSP FAS 157-4 as follows:

	Total Investment	Level 1	Level 2	Level 3
Equity & Bond Funds	\$ 268,844	\$ 268,844	\$ -	\$ -
Total	\$ 268,844	\$ 268,844	\$ -	\$ -

NOTE 5 - GRANTS RECEIVABLE

Grants receivable at June 30, 2018 consisted of the following:

California Arts Council	\$ 15,300
City of Richmond	2,500
Total	\$ 17,800

The 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 6 - FIXED ASSETS

Fixed assets as of June 30, 2018 consisted of the following:

	Balance 7/1/17	Additions	Deletions	Balance 6/30/18
Furniture and equipment	\$ 57,681	\$ 9,129	\$ -	\$ 66,810
Total cost	57,681	\$ 9,129	\$ -	66,810
Accumulated depreciation	(33,668)			(41,094)
Net capital assets	\$ 24,013			\$ 25,716

Depreciation expense for the year ended June 30, 2018 totaled \$7,426.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2018 were available for the following programs:

Studio Art	\$ 117,429
Art in Community	42,500
Exhibition	51,320
General administration	1,030
Total	\$ 212,279

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 8 - ENDOWMENT FUND

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

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 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, 2018 are as follows:

	Unrestricted	Permanently Restricted	Total
Beginning balance – July 1, 2017	\$ -	\$ 36,672	\$ 36,672
Dividends and realized gains (losses)	-	729	729
Unrealized gains (losses)	-	2,129	2,129
Ending balance – June 30, 2018	\$ -	\$ 39,530	\$ 39,530

Richmond Art Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS

For the year ended June 30, 2018, net assets were released from restriction for the following:

Studio Art	\$ 29,447
Art in Community	189,175
Exhibition	67,432
General administration	<u>37,844</u>
Total	<u>\$ 323,898</u>

NOTE 10 - LEASE AGREEMENT

On July 1, 2017, the Center entered into an operating lease expiring June 30, 2067. The total expense for rent was \$25,008 for the year ended June 30, 2018. Minimum future rental payments under this non-cancelable operating lease for each of the following years in aggregate are:

For the year ended June 30, 2019	\$ 25,008
For the year ended June 30, 2020	25,008
For the year ended June 30, 2021	25,008
For the year ended June 30, 2022	25,008
For the year ended June 30, 2023	25,008
Thereafter	<u>1,100,352</u>
Total	<u>\$ 1,225,392</u>

NOTE 11 - ACCRUED VACATION

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Center. The amount of accumulated vacation was \$22,649 as of June 30, 2018.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through November 26, 2018, the date the financial statements were issued.