

**RIVERSIDE ART MUSEUM**  
**(A California Nonprofit Corporation)**

**Financial Statements**  
**with**  
**Independent Auditors' Report**

**For the Year Ended**  
**August 31, 2018**

**RIVERSIDE ART MUSEUM**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Riverside Art Museum  
Riverside, California

We have audited the accompanying financial statements of the Riverside Art Museum (Museum) (a California nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, cash flows, and functional expenses 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.

### Auditors' 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 auditors' 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 the Museum as of August 31, 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.

*Vavrinek, Trine, Day & Co. LLP*

Riverside, California  
May 10, 2019

## **FINANCIAL STATEMENTS**

## RIVERSIDE ART MUSEUM

### STATEMENT OF FINANCIAL POSITION AUGUST 31, 2018

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 363,616	\$ 623,088	\$ -	\$ 986,704
Investments	313,526	193,440	-	506,966
Grants receivable	-	38,122	-	38,122
Pledges receivable:	-	498,515	-	498,515
Other receivables	25,839	-	-	25,839
Prepaid expenses	2,077	-	-	2,077
Inventory	7,746	-	-	7,746
Total Current Assets	<u>712,804</u>	<u>1,353,165</u>	<u>-</u>	<u>2,065,969</u>
<b>Noncurrent Assets:</b>				
Pledges receivable	-	520,047	-	520,047
Contribution receivable				
Charitable Remainder Annuity Trust	10,000	-	-	10,000
Restricted cash and cash equivalents	84,110	-	-	84,110
Restricted investments	-	-	216,305	216,305
Property and equipment, net	966,698	-	-	966,698
Collections (Note 1)	-	-	-	-
Total Noncurrent Assets	<u>1,060,808</u>	<u>520,047</u>	<u>216,305</u>	<u>1,797,160</u>
Total Assets	<u>\$ 1,773,612</u>	<u>\$ 1,873,212</u>	<u>\$ 216,305</u>	<u>\$ 3,863,129</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 52,995	\$ -	\$ -	\$ 52,995
Accrued payroll	56,349	-	-	56,349
Income taxes payable	35,131	-	-	35,131
Deposits	38,000	-	-	38,000
Deferred revenue	90,549	-	-	90,549
Total Liabilities	<u>273,024</u>	<u>-</u>	<u>-</u>	<u>273,024</u>
<b>Net Assets</b>				
Temporarily restricted	-	1,873,212	-	1,873,212
Permanently restricted	-	-	216,305	216,305
Unrestricted	1,500,588	-	-	1,500,588
Total Net Assets	<u>1,500,588</u>	<u>1,873,212</u>	<u>216,305</u>	<u>3,590,105</u>
Total Liabilities and Net Assets	<u>\$ 1,773,612</u>	<u>\$ 1,873,212</u>	<u>\$ 216,305</u>	<u>\$ 3,863,129</u>

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

**RIVERSIDE ART MUSEUM**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>				
Contributions	\$ 100,038	\$ 1,384,746	\$ -	\$ 1,484,784
Grants	83,886	87,479	-	171,365
Admissions	29,148	-	-	29,148
Membership dues	66,236	-	-	66,236
Tuition	390,240	-	-	390,240
Art sales	45,959	-	-	45,959
Gallery Shop sales	18,390	-	-	18,390
Investment income, net	59,445	23,897	-	83,342
Rental income	284,319	-	-	284,319
Fundraising and other revenues	97,810	133,726	-	231,536
Special events revenue	\$ 43,684			
Less: cost of direct benefit to donors	<u>(19,489)</u>			
Miscellaneous income	312	-	-	312
	<hr/>	<hr/>	<hr/>	<hr/>
Total Support and Revenues	1,199,978	1,629,848	-	2,829,826
Net assets released from restriction	524,407	(524,407)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,724,385	1,105,441	-	2,829,826
<b>EXPENSES</b>				
Program services				
Museum and exhibits	445,312	-	-	445,312
Education	386,073	-	-	386,073
Community Outreach	8,389	-	-	8,389
Gallery Shop	16,142	-	-	16,142
Cheech Center	164,409	-	-	164,409
Supporting services				
Fundraising and membership development	146,617	-	-	146,617
Rental activity	208,531	-	-	208,531
Management and general	361,436	-	-	361,436
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	1,736,909	-	-	1,736,909
Change in net assets	(12,524)	1,105,441	-	1,092,917
<b>NET ASSETS, BEGINNING OF YEAR - RESTATED</b>	<hr/>	<hr/>	<hr/>	<hr/>
	1,513,112	767,771	216,305	2,497,188
<b>NET ASSETS, END OF YEAR</b>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 1,500,588	\$ 1,873,212	\$ 216,305	\$ 3,590,105

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

## RIVERSIDE ART MUSEUM

### STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2018

EXPENSES	Program Services					Total Program Services
	Museum and Exhibits	Education	Community Outreach	Gallery Shop	Cheech Center	
Salaries, related taxes and employee benefits	\$ 118,882	\$ 160,130	\$ 674	\$ 7,203	\$ -	\$ 286,889
Advertising and promotion	2,846	80	-	75	658	3,659
Bank charges	16	1,414	10	83	2,201	3,724
Conferences/reception	2,040	6,206	-	-	71,965	80,211
Contract services	57,326	13,805	4,050	444	33,246	108,871
Cost of goods sold	-	-	-	2,866	-	2,866
Delivery and freight	3,671	365	-	-	127	4,163
Depreciation	70,729	13,511	-	2,159	-	86,399
Dues and subscription	5,275	1,281	-	-	3,209	9,765
Equipment rental	5,220	623	-	93	734	6,670
Insurance	25,881	4,398	-	719	106	31,104
Interest expense	-	-	-	-	-	-
Payment to artists	31,522	6,390	175	-	1,000	39,087
Postage	1,038	785	-	58	1,339	3,220
Printing	35,258	1,834	7	30	10,745	47,874
Professional fees	1,780	120	-	-	33,354	35,254
Repairs and maintenance	14,986	2,239	-	331	-	17,556
Supplies	19,002	36,810	1,213	683	4,732	62,440
Taxes, licenses and permits	177	187	30	-	355	749
Travel, meals and entertainment	554	7,812	90	-	638	9,094
Utilities and telephone	45,809	8,751	-	1,398	-	55,958
Awards and scholarships	-	900	50	-	-	950
Teachers	3,300	117,547	2,040	-	-	122,887
Bad debt expense	-	885	50	-	-	935
Total Functional Expenses	<u>\$ 445,312</u>	<u>\$ 386,073</u>	<u>\$ 8,389</u>	<u>\$ 16,142</u>	<u>\$ 164,409</u>	<u>\$ 1,020,325</u>

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

**Supporting Services**

<b>Fund-raising</b>	<b>Membership Development</b>	<b>Management and General</b>	<b>Rental Activity</b>	<b>Total Supporting Services</b>	<b>Total Expenses</b>
\$ 104,417	\$ 864	\$ 197,316	\$ 86,038	\$ 388,635	\$ 675,524
57	-	3,190	-	3,247	6,906
298	226	11,231	36	11,791	15,515
6,380	-	2,490	-	8,870	89,081
9,196	-	39,290	12,993	61,479	170,350
-	-	-	-	-	2,866
191	-	(62)	11	140	4,303
2,352	-	3,838	14,301	20,491	106,890
329	30	13,773	-	14,132	23,897
376	-	2,343	43,048	45,767	52,437
-	-	6,043	3,948	9,991	41,095
-	-	707	-	707	707
-	-	1,300	-	1,300	40,387
2,856	222	1,519	74	4,671	7,891
3,256	-	14,583	206	18,045	65,919
520	-	12,210	-	12,730	47,984
2,617	-	16,564	3,940	23,121	40,677
4,295	457	11,092	1,302	17,146	79,586
314	-	17,711	35,168	53,193	53,942
(185)	-	3,039	18	2,872	11,966
1,523	-	3,259	7,298	12,080	68,038
-	-	-	-	-	950
26	-	-	150	176	123,063
5,000	1,000	-	-	6,000	6,935
<b>\$ 143,818</b>	<b>\$ 2,799</b>	<b>\$ 361,436</b>	<b>\$ 208,531</b>	<b>\$ 716,584</b>	<b>\$ 1,736,909</b>

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



**RIVERSIDE ART MUSEUM**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 1,092,917
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities:	
Net realized/unrealized gain on investments	(51,392)
Depreciation	106,890
(Increase) Decrease in:	
Grants, pledges, and other receivables	(681,498)
Prepaid expenses	(2)
Inventory	32,636
Increase (Decrease) in:	
Accounts payable	39,467
Accrued liabilities	22,526
Deposits	6,500
Deferred revenue	(62,741)
<b>Net Cash Flows From Operating Activities</b>	<u>505,303</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
(Addition to) restricted cash and cash equivalents	(84,110)
Proceeds from sale of investments	146,876
Purchase of investments	(59,255)
Purchase of equipment	(59,130)
<b>Net Cash Flows From Investing Activities</b>	<u>(55,619)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from line of credit	55,000
Payments on line of credit	(55,000)
<b>Net Cash Flows From Financing Activities</b>	<u>-</u>
<b>NET CHANGE IN UNRESTRICTED CASH AND CASH EQUIVALENTS</b>	449,684
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>537,020</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 986,704</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>	
Cash paid during the year for interest	\$ 707
Cash paid during the year for taxes	<u>\$ 27,055</u>

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

**NOTES TO FINANCIAL STATEMENTS**

# RIVERSIDE ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

### 1. Summary of Significant Accounting Policies

#### Nature of Activities

The Riverside Art Museum (the Museum) is a not-for-profit organization which provides art exhibits and gallery space for the display of visual art works, principally works by California artists and in particular those artists active within the Inland Empire region. The Museum has an expansive art education program serving children and adults, both on and offsite. The Museum offers exhibitions and educational and cultural programs, including a museum shop to stimulate public awareness, interest, and appreciation of art for Riverside and surrounding communities. In addition, the Museum rents a section of the facility for special events.

The Museum's support and revenues are derived primarily from contributions, other fundraising efforts including special events, and rental of museum facilities. A large portion of revenue also consists of art education class and workshop fees.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

#### Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

#### Basis of Presentation

The Museum reports information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted Net Assets* – include resources that are not temporarily or permanently restricted by donor and are available for operations of the Museum without limitation. Unrestricted Net Assets include board designated quasi-endowment funds or other funds specifically designated by board action, and resources restricted by donor-imposed criteria for which the restrictions are met within the same time period as the funds were received.

*Temporarily Restricted Net Assets* – include those resources whose use is restricted by donor-imposed criteria that either expire with the passage of time or by the actions of the Museum, and unappropriated earnings from permanently restricted net assets.

*Permanently Restricted Net Assets* – include resources whose use is permanently restricted by donor-imposed criteria; however, the income derived from the restricted assets is generally available to support operations or scholarships.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank deposits, money market funds subject to withdrawal, and liquid debt instruments, which mature within three months of the date acquired.

## RIVERSIDE ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

#### 1. Summary of Significant Accounting Policies (Continued)

##### **Promises to Give**

Promises to give are recognized, if unconditional, as contribution revenue in the period promised and as either current or long-term pledges receivable depending on the payment schedule of the donors. We record unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities.

##### **Other Receivables**

Other receivables including trade receivables are reviewed by management on a regular basis, who determines when receivables are past due or delinquent based on contractual terms and past experience with its customers. At August 31, 2018, management considers accounts receivable to be fully collectible; and accordingly, no allowance for doubtful accounts is required.

##### **Contributions**

###### Donated Materials and Services

Donated materials are reflected as contributions in the accompanying statements at their estimated fair values at date of receipt. The value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks in the Museum's program services. This contributed time is not reflected in the accompanying financial statements since the services do not meet the requirement of specialized skills.

###### Donated Property and Equipment

The Museum reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Equipment donated with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire equipment or art for the Museum collection, are reported as restricted support. Absent explicit donor stipulations about how long these donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service.

###### Investment Return

Investment return on endowment funds not restricted by the donor is temporarily restricted until board approves its expenditure.

##### **Gift Shop Inventory**

Inventories consist primarily of books and art related items. All inventories are valued at the lower of actual cost or market. Cost is determined by specific identification.

## RIVERSIDE ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

#### 1. Summary of Significant Accounting Policies (Continued)

##### Investments

The Museum has a formal policy that limits its investments to certificates of deposit, passbook and money market accounts and mutual funds.

##### Fair Value Measurements

The Museum has adopted standards for fair value measurements. These standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 – measurements) and the lowest priority to unobservable inputs (Level 3 – measurements). The three levels of the fair value hierarchy are as follows: Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access. Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

##### Collection

Collection items consist of art objects that are held for educational and curatorial purposes. Each of the items is cataloged, preserved, cared for, and kept unencumbered. Activities verifying their existence and assessing their condition are performed continuously. Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the Statement of Activities. Proceeds from deaccessions or insurance recoveries are reflected on the Statement of Activities based on the absence or existence and nature of donor-imposed restrictions. If collection items are sold, the proceeds from the sale are used to purchase additional collection items.

## RIVERSIDE ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

#### 1. Summary of Significant Accounting Policies (Continued)

##### Property and Equipment

Property and equipment are stated at cost or fair value at the date of donation in the case of donated assets. The policy of the Museum is to capitalize property and equipment with a value of \$500 or more. The Museum provides for depreciation and amortization of property and equipment by use of the straight-line method over the estimated useful lives, as follows:

Buildings and improvements	10 to 30 years
Furniture and equipment	5 to 12 years

##### Deferred Revenues and Deposits

Deferred revenues and deposits consist primarily of amounts received in advance for classroom instruction and the rental of the Museum and restaurant facilities for weddings and events. Weddings and events require a deposit in advance, which is returned in full if the event is cancelled six months prior to the event, or 25 percent is returned if the event is cancelled after six months, but no later than three months prior to the event. All events require payment in full prior to the event taking place.

##### Tax Status

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income tax under Section 23701(d) of the California Revenue and Taxation Code. In addition, the Museum has been classified as an organization that is not a private foundation under Section 509(a)(2). However, certain sales in the Museum's shop and rent receipts net of rent expenses are subject to unrelated business income tax, if they exceed certain thresholds. For the year ended August 31, 2018 the Museum has recorded a tax liability of \$35,131 federal and state purposes on this unrelated business activity.

Management believes that all of the positions taken by the Museum in its federal and state income tax returns are more likely than not to be sustained upon examination. The Museum's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board for three years and four years, respectively, after they are filed.

##### Advertising Costs

Direct response and non-direct response advertising is expensed as incurred since the value of this advertising does not benefit any future periods.

##### Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**RIVERSIDE ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2018**

**2. Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments as of August 31, 2018, are classified in the Statement of Financial Position as follows:

Cash and cash equivalents	\$ 986,704
Restricted cash and cash equivalents	84,110
Total Cash and Cash Equivalents	<u>1,070,814</u>
Investments	506,966
Restricted investments	216,305
Total Investments	<u>723,271</u>
Total Cash, Cash Equivalents, and Investments	<u>\$ 1,794,085</u>

Cash, cash equivalents and investments at August 31, 2018 are comprised of the following:

<u>Cash and cash equivalents</u>	<u>Cost</u>	<u>Fair Market Value</u>
Cash on hand and checking accounts	\$ 405,924	\$ 405,924
Savings accounts	7,346	7,346
Money Market accounts	470,938	470,938
Certificate of deposit	84,110	84,110
Charles Schwab Investment cash and sweep money market funds	102,496	102,496
	<u>1,070,814</u>	<u>1,070,814</u>
 <u>Investments</u>		
Investments held at Charles Schwab		
Common stock	21,779	102,466
Fixed income	146,945	143,828
Bond mutual funds	100,467	95,779
Equity mutual funds	256,812	290,124
Bond and ETF investments	88,337	91,074
	<u>614,340</u>	<u>723,271</u>
	<u>\$ 1,685,154</u>	<u>\$ 1,794,085</u>

Components of investment income consist of the following for the year ended August 31, 2018:

Interest and divided income	\$ 31,950
Net unrealized/realized gains	51,392
Total Investment Return (loss)	<u>\$ 83,342</u>

## RIVERSIDE ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

#### 2. Cash, Cash Equivalents and Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of August 31, 2018:

	Level 1	Level 2	Total
Mutual Funds:			
Common stock	\$ 102,466	\$ -	\$ 102,466
Fixed income	-	143,828	143,828
Bond mutual funds	-	95,779	95,779
Equity mutual funds	290,124	-	290,124
Bond and ETF investments	-	91,074	91,074
	<u>\$ 392,590</u>	<u>\$ 330,681</u>	<u>\$ 723,271</u>

#### 3. Pledges Receivable

Pledges receivable consists of unconditional promises to give, and are estimated to be collected as follows at August 31, 2018:

Receivable in one year or less	\$ 498,515
Receivable in two to five years	376,425
Receivable in more than five years	205,000
	<u>1,079,940</u>
Less time value discount from 2.2% to 3.2%	<u>(61,378)</u>
Net pledges receivable	<u>\$ 1,018,562</u>

At August 31, 2018, one donor accounted for 56 percent of total promises to give. Promises to give were restricted by donors for the support of Cheech Center and were reported as temporarily restricted net assets.

#### 4. Charitable Remainder Annuity Trust

A donor established a trust with a bank naming the Museum as the lead beneficiary with an estimated fair market value of \$10,000. Fair value as of August 31, 2018, was determined by reference to quoted market prices for similar investments (Level 2 – significant other observable inputs). At the time of the donor's death, the trust will be terminated and the value of the investments will be transferred to the Museum. The trust is valued at its original gift amount because no other information is available.



## RIVERSIDE ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

#### 5. Property and Equipment

Property and equipment consisted of the following as of August 31, 2018:

Land	\$ 69,935
Buildings	2,711,685
Office equipment and software	237,508
School equipment	22,667
Gallery furnishings and equipment	83,208
Library furnishings	3,428
Monta Library	660
Atrium furniture and equipment	2,136
Lobby furniture and furnishings	18,413
Shop equipment	2,128
	<hr/>
	3,151,768
Less Accumulated Depreciation	<hr/> (2,185,070)
Total Property and Equipment, net	<hr/> <hr/> \$ 966,698

Depreciation expense for the year ended August 31, 2018, was \$106,890.

#### 6. Line of Credit

The Museum has a line of credit with Provident Savings Bank for \$75,000 expiring on August 14, 2019. The provisions of the line of credit require a security interest in the deposits held by Provident Savings Bank. The amount outstanding and the effective interest rate at August 31, 2018, was \$0 and 2.15 percent, respectively. The amount held as collateral for the line of credit at August 31, 2018, totaled \$84,110.

#### 7. Net Assets

##### Unrestricted Net Assets

The Board of Trustees has chosen to place the following designation on unrestricted net assets as of August 31, 2018:

<b>Unrestricted net assets:</b>	
<hr/>	
Board Designations:	
General	\$ 37,267
Kelly Dutton Memorial	40,907
Unrestricted general	<hr/> 1,422,414
Total Unrestricted Net Assets	<hr/> <hr/> \$ 1,500,588

**RIVERSIDE ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2018**

**7. Net Assets (Continued)**

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of August 31, 2018:

**Temporarily restricted net assets:**

Law Library for purchase of artwork	\$ 19,166
Ceech Center	1,316,843
Grants and donor restricted funds to be spent in subsequent years	379,589
Jim Reed Memorial	9,023
Dottie-Smith Scholarship	7,346
Littleworth Endowment earnings available for scholarships	8,897
Endowment earnings	<u>132,348</u>
 Total Temporary Restricted Net Assets	 <u><u>\$ 1,873,212</u></u>

Permanently Restricted Net Assets

The Museum's permanently restricted net assets consist of individual funds established by donors to provide annual funding for specific activities and general operations. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Permanently restricted net assets consist of the following endowment funds as of August 31, 2018:

**Permanently restricted net assets:**

Endowment Funds	\$ 184,070
Littleworth Endowment	<u>32,235</u>
 Total Permanently Restricted Net Assets	 <u><u>\$ 216,305</u></u>

## RIVERSIDE ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

#### 7. Net Assets (Continued)

##### *Interpretation of Relevant Law*

The Board of Directors of the Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) the duration and preservation of the fund,
- (2) the purposes of the organization and the donor-restricted endowment fund,
- (3) general economic conditions,
- (4) the possible effect of inflation and deflation,
- (5) the expected total return from income and the appreciation of investments,
- (6) other resources of the organization and,
- (7) the investment policies of the organization.

##### Endowment Funds

Endowment net asset composition by type of fund as of August 31, 2018 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds	\$ -	\$ 184,070	\$ 184,070
Littleworth Endowment	8,897	32,235	41,132
Endowment earnings	132,348	-	132,348
	\$ 141,245	\$ 216,305	\$ 357,550

The changes in endowment net assets for the year ended August 31, 2018 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year as restated	\$ 89,038	\$ 216,305	\$ 305,343
Investment return:			
Investment income	18,689	-	18,689
Net appreciation/depreciation (realized and unrealized)	36,138	-	36,138
Investment fees	(2,620)	-	(2,620)
	\$ 141,245	\$ 216,305	\$ 357,550

## RIVERSIDE ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

#### 7. Net Assets (Continued)

##### Endowment Funds (Continued)

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA is as follows:

Endowment Funds	\$ 184,070
Litteworth Endowment	<u>32,235</u>
Total Endowment Funds	<u><u>\$ 216,305</u></u>

The portion of perpetual endowment funds subject to a time restriction under SPMIFA is as follows:

With purpose restrictions -	
Littleworth Scholarship Fund	\$ 8,897
Without purpose restrictions -	
Endowment Fund	<u>132,348</u>
Total Endowment Funds	
Classified as Temporarily Restricted Net Assets	<u><u>\$ 141,245</u></u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets, when applicable.

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve the real (i.e. inflation-adjusted) purchasing power of the endowment, and are restricted to investments in certificates of deposit, passbook and money market accounts, and mutual funds. Actual returns in any given year will vary due to market fluctuations.

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### 8. Fund-raising

Total fund-raising expense for the year ended August 31, 2018, was \$143,818.

## RIVERSIDE ART MUSEUM

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

#### 9. Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Museum to concentrations of credit and market risk consist primarily of cash, cash equivalents and investments. Cash, cash equivalents and investments are maintained at high-quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At August 31, 2018, the Museum had \$70,911 in uninsured balances. The Museum's investments do not represent significant concentrations of market risk inasmuch as the Museum's investment portfolio is diversified among issuers.

Investment securities are exposed to various risks such as interest rate, market and credit. The financial markets in recent years have shown heightened volatility. Due to the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the various risk factors, in the near term could materially affect investment balances and the amounts reported in the financial statements. Additionally, many mutual funds invest in the securities of foreign companies, which involve special risks and considerations not typically associated with investing in U.S. companies. These risks include devaluation of currencies, less reliable information about issuers, different securities transaction clearance and settlement practices, and possible adverse political and economic developments. Moreover, securities of many foreign companies and their markets may be less liquid and their prices more volatile than similar types of securities of comparable U.S. companies.

#### 10. Restatement

The statement of activities has been restated to correct the following four errors:

The Jim Reed Memorial and Dottie-Smith Scholarship, with remaining balances as of the beginning of the fiscal year of \$9,023 and \$7,346 (\$16,369 total), respectively, were included as part of unrestricted net assets in previously issued financial statements, despite board-designated (Jim Reed Memorial) or donor-designated (Dottie-Smith Scholarship) purpose restrictions applicable to each program. As a result, beginning Unrestricted Net Assets and beginning Temporarily Restricted Net Asset have been restated by \$16,369 to recognize both programs as part of Temporarily Restricted Net Assets.

Endowment earnings related to the Littleworth Endowment and General Endowment have been restated as of the beginning of the period for investment income previously recognized as part of Unrestricted Net Assets. As a result, beginning Unrestricted Net Assets and Temporarily Restricted Net Assets have been restated by \$89,038 to properly recognize these amounts.

The corpus of General Endowment has been adjusted to reflect the total accumulation of permanently restricted donor designations. As a result, Unrestricted Net Assets and Permanently Restricted Net Assets have been restated by \$33,005 to properly recognize these amounts.

The Kelly Dutton Endowment, with a remaining balance as of the beginning of the fiscal year of \$40,000, is a board designated endowment that was included as part of permanently restricted net assets in previously issued financial statements. As a result, Unrestricted Net Assets and Permanently Restricted Net Assets have been restated by \$40,000 to properly recognize these amounts.

**RIVERSIDE ART MUSEUM**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2018**

**10. Restatement (Continued)**

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total Net Assets</u>
Net Assets, Beginning of the Year	\$ 1,545,514	\$ 662,364	\$ 289,310	\$ 2,497,188
Restatements:				
Recognition of Temporarily Restricted Programs	(16,369)	16,369	-	-
Restatement of Previously Recognized Endowment Earnings	(89,038)	89,038	-	-
Restatement of Permanently Restricted Corpus Amounts	33,005	-	(33,005)	-
Restatement of board designated endowments as unrestricted	40,000	-	(40,000)	-
Net Assets, Beginning of the Year as Restated	<u>\$ 1,513,112</u>	<u>\$ 767,771</u>	<u>\$ 216,305</u>	<u>\$ 2,497,188</u>

**11. Subsequent Events**

The Museum has evaluated subsequent events through May 10, 2019, which is the date the financial statements were available to be issued. As of May 10, 2019, the total amount outstanding for the Museum's line of credit totaled \$40,000. Management has determined that there were no other subsequent events or transactions that would have a material impact on the current year financial statements.