

Financial Statements  
August 31, 2022

## Riverside Art Museum



Independent Auditor’s Report.....	1
Financial Statements	
Statement of Financial Position .....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows .....	7
Notes to Financial Statements .....	8



## Independent Auditor's Report

To the Board of Trustees  
Riverside Art Museum  
Riverside, California

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Riverside Art Museum (RAM), which comprise the statement of financial position as of August 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of RAM as of August 31, 2022, 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of RAM and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about RAM's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities of the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 RAM's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RAM's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
May 25, 2023

Riverside Art Museum  
Statement of Financial Position  
August 31, 2022

Assets

Current assets

Cash and cash equivalents	\$ 4,997,435
Restricted cash and cash equivalents	84,459
Investments	740,529
Promises to give	153,245
Grants receivable	251,445
Other receivables	28,287
Prepaid expenses	78,101
Inventory	40,221

Total current assets	6,373,722
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Noncurrent assets

Promises to give, net	95,060
Restricted investments	231,305
Property and equipment, net	1,058,524
Collections	-

Total noncurrent assets	1,384,889
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Total assets	\$ 7,758,611
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Liabilities and net assets

Current liabilities

Accounts payable and accrued liabilities	\$ 1,887,991
Accrued payroll	100,942
Line of credit	64,759
Deposits	35,867
Deferred revenue	147,129

Total current liabilities	2,236,688
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Total liabilities	2,236,688
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Net assets

Without donor restrictions	3,086,288
With donor restrictions	2,435,635

Total net assets	5,521,923
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Total liabilities and net assets	\$ 7,758,611
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Riverside Art Museum  
Statement of Activities  
Year Ended August 31, 2022

		Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, support, and gains</b>				
Contributions		\$ 602,556	\$ 15,550	\$ 618,106
Grants		353,032	512,760	865,792
Admissions		399,964	-	399,964
Membership dues		100,734	-	100,734
Tuition		449,729	-	449,729
Art sales		19,400	-	19,400
Blue Door Museum store	\$ 191,652			
Less: cost of goods sold	<u>(106,248)</u>	85,404	-	85,404
Rental income	162,376			
Less: rental activity	<u>(168,614)</u>	(6,238)	-	(6,238)
Special events revenue	782,132			
Less: cost of direct benefit to donors	<u>(325,532)</u>	456,600	-	456,600
City management fee		266,666	-	266,666
City appropriations for expenses		26,403	-	26,403
Miscellaneous income		266	-	266
Investment loss, net		(51,086)	(67,177)	(118,263)
Gain on extinguishment of debt		187,104	-	187,104
Net assets released from restrictions		2,958,434	(2,958,434)	-
		<u>5,848,968</u>	<u>(2,497,301)</u>	<u>3,351,667</u>
<b>Expenses</b>				
<b>Program services</b>				
Exhibitions, curatorial, and collections		3,311,188	-	3,311,188
Education		491,621	-	491,621
Community outreach		181,840	-	181,840
Museum Stores		110,223	-	110,223
		<u>4,094,872</u>	<u>-</u>	<u>4,094,872</u>
<b>Supporting services</b>				
Fundraising		230,269	-	230,269
Membership development		965	-	965
Management and general		439,870	-	439,870
		<u>671,104</u>	<u>-</u>	<u>671,104</u>
		<u>4,765,976</u>	<u>-</u>	<u>4,765,976</u>
Change in net assets		1,082,992	(2,497,301)	(1,414,309)
Net assets, beginning of year		2,003,296	4,932,936	6,936,232
Net assets, end of year		<u>\$ 3,086,288</u>	<u>\$ 2,435,635</u>	<u>\$ 5,521,923</u>

See Notes to Financial Statements

Riverside Art Museum  
Statement of Functional Expenses  
Year Ended August 31, 2022

	Program Services				Total Program Services
	Exhibitions, Curatorial, and Collections	Education	Community Outreach	Museum Stores	
Expenses					
Salaries, related taxes, and employee benefits	\$ 507,498	\$ 386,764	\$ 21,703	\$ 68,302	\$ 984,267
Advertising and promotion	225,705	-	4,408	-	230,113
Art acquisitions	315,000	-	-	-	315,000
Artist payments	39,132	524	99,137	18,612	157,405
Bad debt expense	12,500	-	-	-	12,500
Bank charges	53,113	2,783	641	1,672	58,209
City facilities maintenance fee	69,581	-	-	-	69,581
Conferences and receptions	6,543	376	-	-	6,919
Contract services	103,152	2,974	2,584	389	109,099
Cost of direct benefits to donors	-	-	-	-	-
Cost of goods sold	-	-	-	106,248	106,248
Delivery and freight	22,017	-	-	-	22,017
Depreciation	76,760	13,517	-	2,382	92,659
Dues and subscription	20,753	7,839	45	1,584	30,221
Insurance	18,468	3,414	-	736	22,618
Interest expense	-	-	-	-	-
Miscellaneous expense	14,367	4,571	2,593	67	21,598
Postage	1,168	221	529	51	1,969
Printing	40,353	2,965	10,142	5,428	58,888
Professional fees	175	-	-	-	175
Renovation contribution to the City	1,509,237	-	-	-	1,509,237
Rental - equipment	12,340	592	16,925	645	30,502
Rental activity	-	-	-	-	-
Repairs and maintenance	61,531	10,954	-	1,836	74,321
Security	81,336	744	1,251	106	83,437
Supplies	18,727	40,176	15,154	6,434	80,491
Travel, meals, and entertainment	9,782	1,094	6,728	-	17,604
Utilities and telephone	91,950	12,113	-	1,979	106,042
<b>Total functional expenses</b>	<b>3,311,188</b>	<b>491,621</b>	<b>181,840</b>	<b>216,471</b>	<b>4,201,120</b>
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	-	-	-
Cost of goods sold	-	-	-	(106,248)	(106,248)
Rental activity	-	-	-	-	-
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 3,311,188</b>	<b>\$ 491,621</b>	<b>\$ 181,840</b>	<b>\$ 110,223</b>	<b>\$ 4,094,872</b>

Riverside Art Museum  
Statement of Functional Expenses, continued  
Year Ended August 31, 2022

	Supporting Services					Total Expenses
	Fundraising	Cost of Direct Benefits to Donors	Membership Development	Management and General	Total Supporting Services	
Expenses						
Salaries, related taxes, and employee benefits	\$ 142,350	\$ -	\$ -	\$ 231,795	\$ 374,145	\$ 1,358,412
Advertising and promotion	68	-	-	4,508	4,576	234,689
Art acquisitions	-	-	-	-	-	315,000
Artist payments	4,475	-	-	1,708	6,183	163,588
Bad debt expense	-	-	-	-	-	12,500
Bank charges	2,007	-	424	4,447	6,878	65,087
City facilities maintenance fee	-	-	-	-	-	69,581
Conferences and receptions	20,497	-	-	376	20,873	27,792
Contract services	15,093	-	-	30,295	45,388	154,487
Cost of direct benefits to donors	-	325,533	-	-	325,533	325,533
Cost of goods sold	-	-	-	-	-	106,248
Delivery and freight	-	-	-	2,269	2,269	24,286
Depreciation	2,323	-	-	4,236	6,559	99,218
Dues and subscription	9,472	-	299	21,741	31,512	61,733
Insurance	358	-	-	21,554	21,912	44,530
Interest expense	412	-	-	2,920	3,332	3,332
Miscellaneous expense	7,213	-	-	12,169	19,382	40,980
Postage	661	-	63	616	1,340	3,309
Printing	11,808	-	179	3,076	15,063	73,951
Professional fees	-	-	-	54,526	54,526	54,701
Renovation contribution to the City	-	-	-	-	-	1,509,237
Rental - equipment	103	-	-	1,529	1,632	32,134
Rental activity	-	-	-	168,614	168,614	168,614
Repairs and maintenance	1,537	-	-	16,593	18,130	92,451
Security	2,039	-	-	8,481	10,520	93,957
Supplies	3,951	-	-	8,527	12,478	92,969
Travel, meals, and entertainment	1,973	-	-	1,359	3,332	20,936
Utilities and telephone	3,929	-	-	7,145	11,074	117,116
<b>Total functional expenses</b>	<b>230,269</b>	<b>325,533</b>	<b>965</b>	<b>608,484</b>	<b>1,165,251</b>	<b>5,366,371</b>
Less expenses included with revenues on the statement of activities						
Cost of direct benefits to donors	-	(325,533)	-	-	(325,533)	(325,533)
Cost of goods sold	-	-	-	-	-	(106,248)
Rental activity	-	-	-	(168,614)	(168,614)	(168,614)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 230,269</b>	<b>\$ -</b>	<b>\$ 965</b>	<b>\$ 439,870</b>	<b>\$ 671,104</b>	<b>\$ 4,765,976</b>



Riverside Art Museum  
Statement of Cash Flows  
Year Ended August 31, 2022

Operating activities	
Change in net assets	\$ (1,414,309)
Adjustments to reconcile change in net assets to net cash from operating activities	
Provision for bad debts	12,500
Net realized and unrealized loss on investments	165,221
Depreciation	115,152
Gain on extinguishment of debt	(187,104)
Changes in assets and liabilities	
Promises to give	294,173
Grants receivable	(211,310)
Other receivables	(3,580)
Prepaid expenses	(46,294)
Inventory	(33,800)
Accounts payable and accrued liabilities	1,831,563
Accrued payroll	31,241
Deposits	11,764
Deferred revenue	94,077
Net cash from operating activities	<u>659,294</u>
Investing activities	
Purchases of investments	(15,000)
Proceeds from sale of investments	984,928
Purchases of property and equipment	(365,785)
Net cash from investing activities	<u>604,143</u>
Financing activities	
Payments under line of credit	(241)
Net change in cash, cash equivalents and restricted cash and cash equivalents	1,263,196
Cash, cash equivalents and restricted cash and cash equivalents, beginning of year	<u>3,818,698</u>
Cash, cash equivalents and restricted cash and cash equivalents, end of year	<u>\$ 5,081,894</u>
Cash and cash equivalents	\$ 4,997,435
Restricted cash and cash equivalents	<u>84,459</u>
Total cash, cash equivalents and restricted cash and cash equivalents, end of year	<u>\$ 5,081,894</u>
Supplemental disclosure of cash flow information	
Interest paid	<u>\$ 3,332</u>
Supplemental disclosure of noncash investing and financing activities:	
Gain on extinguishment of debt	<u>\$ 187,104</u>

### **Note 1 - Nature of Operations**

The Riverside Art Museum (RAM) is a not-for-profit cultural institution founded in 1954. RAM's mission is to integrate art into the lives of people in a way that engages, inspires, and builds community by providing high-quality exhibits and art education programs that instill a lifelong love of the arts.

RAM serves a local and international audience from its two downtown Riverside locations – The Riverside Art Museum (opened in 1967) and The Cheech Marin Center for Chicano Art & Culture of the Riverside Art Museum (The Cheech Center, opened June 18, 2022), offering exhibition and education program activities at both sites. RAM provides curriculum-based art lessons throughout classrooms in Inland Empire schools and gives docent-led exhibition tours at both sites for students from throughout southern California and beyond. RAM also engages at-risk youth through mural projects and online classes, offers adult classes and workshops, and holds exhibit-related lectures, symposiums and tours.

Individuals, private foundations, businesses, and governmental agencies support RAM primarily through contributions, grants, and membership dues. Fundraising endeavors include special gala events and the activities of the Riverside Art Alliance, RAM's fundraising auxiliary group. Significant portions of RAM's revenue consist of museum admission ticket sales, art education contracts with local school districts, and the City of Riverside management fee income related to the administration and programming activities of The Cheech Center.

### **Note 2 - Summary of Significant Accounting Policies**

#### **Basis of Accounting**

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

#### **Cash and Cash Equivalents**

Cash and cash equivalents included in the statement of financial position 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.

#### **Restricted Cash and Cash Equivalents**

Amounts included in restricted cash and cash equivalents in the statement of financial position represents amounts required to be set aside as collateral for RAM's line of credit with Provident Savings Bank.

### **Promises to Give**

RAM records 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. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. As of August 31, 2022, management considers promises to give to be fully collectible; and accordingly, no allowance for doubtful accounts is recorded.

### **Grants Receivables**

RAM records grants receivables that are expected to be collected within one year at net realizable value. As of August 31, 2022, management considers grants receivables to be fully collectible; and accordingly, no allowance for doubtful accounts is recorded.

### **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, 2022, management considers other receivables to be fully collectible; and accordingly, no allowance for doubtful accounts is recorded.

### **Inventory**

Inventory consists primarily of books and art related items and is stated at the lower of cost or net realizable value. Cost is determined by specific identification.

### **Investments**

RAM has a board-approved investment policy that states that the portfolio shall be invested to provide safety through diversification in a portfolio of common stocks, bonds, mutual funds, and cash equivalents, all of which may reflect varying rates of return. The Finance Committee of RAM meets annually to review performance of investments and make any adjustments to the investment policy. The objective of the investment policy is long-term growth of assets and protection of capital.

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair value in the statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

### **Fair Value Measurements**

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets that can be accessed at the measurement date.

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

*Level 3* – Unobservable inputs for the asset. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the assets and does not necessarily correspond to RAM's assessment of the quality, risk, or liquidity profile of the asset.

A portion of RAM's investments are classified within Level 1 because they are comprised of investments with readily determinable fair values based on daily redemption values. The fixed income securities are valued by the custodians of the securities using pricing models based on credit, quality, time to maturity, stated interest rates, and market-rate assumptions and are classified within Level 2.

### **Collections**

Collection items consist of art objects that are held for educational and curatorial purposes. Each of the items are 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 net assets without donor restrictions if purchased without donor restricted assets and as decreases in net assets with donor restrictions 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.

### **Property and Equipment**

Property and equipment is stated at cost or fair value at the date of donation in the case of donated assets. The policy of RAM is to capitalize property and equipment with a value of \$5,000 or more. RAM provides for depreciation and amortization of property and equipment by use of the straight-line method over the estimated useful lives, as follows:

Buildings	10 to 30 years
Furnishings, software and equipment	5 to 12 years

When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended August 31, 2022.

### **Deferred Revenue and Deposits**

Deferred revenue and deposits consist primarily of amounts received in advance for City management fees, classroom instruction, and the rental of 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.

### **Donated Services and In-Kind Contributions**

Volunteers contribute time to RAM's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by accounting principles generally accepted in the United States of America (U.S. GAAP). Contributed goods and services are recorded at fair value at the date of donation. No significant contributions of such goods or services were received during the year ended August 31, 2022.

## Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor 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 certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

**Net Assets With Donor Restrictions** - Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. RAM reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. RAM reports conditional contributions restricted by donors as increases in net assets without donor restrictions if the restrictions and conditions expire simultaneously in the reporting period.

## Revenue and Revenue Recognition

RAM recognizes contributions and grants when cash, securities, or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Revenue is reported as an increase in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Appreciation and depreciation of investments is reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor-imposed restrictions, by the passage of time, or by law. Promises to give that do not contain donor restrictions that limit the use of the donated assets and for which the donor specifies the gift may be used to support operations of the current period are recorded as net assets without donor restrictions.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met. When the contribution becomes unconditional, RAM reports the contribution as an increase in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. In those circumstances, RAM reports the contribution as an increase in net assets with donor restrictions.

RAM recognizes revenue from admissions at the time of admission. Membership dues, which are nonrefundable, are recognized over the membership period.

RAM recognizes revenue from tuition during the year in which the related services are provided to students. The performance obligation of delivering education services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic period. All amounts received prior to the commencement of the academic period, including enrollment deposits, are deferred to the applicable period.

RAM recognizes art sales and gift shop sales at the time of purchase. RAM records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. RAM recognizes the City management fee during the period in which the related services are performed.

Deferred revenue represents revenue received in advance for tuition and facility rentals. Deferred revenue at August 31, 2022, 2021, and 2020 totaled \$147,129, \$53,052, and \$65,862, respectively.

#### **Income Taxes**

RAM is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. RAM is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, RAM is subject to income tax on net income that is derived from business activities that are unrelated to RAM's exempt purpose. RAM determined certain sales in the Museum Shops 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, 2022, there was no tax liability for federal or state purposes on this unrelated business activity.

Management believes that RAM has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. RAM would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

#### **Advertising Costs**

Advertising costs are expensed as incurred and totaled \$234,689 during the year ended August 31, 2022.

#### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, insurance, and other, which are allocated on the basis of estimates of time and effort.

### **Estimates**

The preparation of these financial statements in conformity with U.S GAAP 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.

### **Current Pronouncements**

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Additional related disclosures are also required. ASU No. 2020-07 is effective for annual periods beginning after June 15, 2021. RAM has determined this statement has no effect on the current financial statements.

### **Future Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of operations. In June 2020, FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02 for one year. The amendment in this update is effective for years beginning after December 15, 2021. RAM is currently assessing the impact of the adoption of the standard.

### **Subsequent Events**

Management has evaluated subsequent events through May 25, 2023, the date the financial statements were available to be issued.



**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, August 31, 2022, comprise the following:

Financial Assets	
Cash, cash equivalents and restricted cash and cash equivalents	\$ 5,081,894
Investments and restricted investments	971,834
Promises to give, net	248,305
Grants receivable	251,445
Other receivables	28,287
	6,581,765
Total financial assets	
Less amounts not available to be used within one year:	
Net assets with donor restrictions for time or purpose	(2,204,330)
Net assets with donor restrictions of a perpetual nature	(231,305)
Board-designated reserve	(78,174)
Amounts restricted as collateral for line of credit	(84,459)
Add net assets with time restrictions to be met within one year	51,445
	(2,546,823)
Total financial assets not available to be used within one year	
Total financial assets available to meet general expenditures	
within one year of the statement of financial position date	\$ 4,034,942

RAM's goal is to maintain 90 days of operating expenses. As part of this liquidity plan, excess cash is invested in Money Market accounts and certificates of deposits. In addition, RAM has a \$175,000 line of credit to meet cash flow needs, of which \$110,241 was available as of August 31, 2022.

RAM's endowment fund consists of two donor-restricted endowments that are not available for general expenditures. The income generated from the two donor-restricted endowments can be used for RAM's ongoing operations.

**Note 4 - Cash, Cash Equivalents, and Investments**

Cash, cash equivalents, and investments at August 31, 2022 are classified in the statement of financial position as follows:

Cash and cash equivalents	\$ 4,997,435
Restricted cash and cash equivalents	<u>84,459</u>
Total cash and cash equivalents	5,081,894
Investments	740,529
Restricted investments	<u>231,305</u>
Total investments	<u>971,834</u>
Total cash, cash equivalents, and investments	<u><u>\$ 6,053,728</u></u>

Cash, cash equivalents, and investments at August 31, 2022 comprise the following at fair value:

Cash and cash equivalents	
Cash on hand and checking accounts	\$ 4,768,251
Savings accounts	8,920
Money Market accounts	164,755
Certificates of deposit	84,459
Investment cash	<u>55,509</u>
Total cash and cash equivalents	5,081,894
Investments	
Common stocks	103,608
Fixed income	186,417
Bond mutual funds	113,111
Equity mutual funds	446,224
Bond and ETF investments	<u>122,474</u>
Total investments	<u>971,834</u>
Total cash, cash equivalents, and investments	<u><u>\$ 6,053,728</u></u>

Investment activity for the year ended August 31, 2022 consists of the following:

Interest and dividend income	\$ 46,958
Realized gain	28,827
Unrealized loss	<u>(194,048)</u>
Total investment return, net	<u><u>\$ (118,263)</u></u>

The following table presents assets measured at fair value on a recurring basis at August 31, 2022.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Common stocks	\$ 103,608	\$ -	\$ -	\$ 103,608
Fixed income	-	186,417	-	186,417
Bond mutual funds	113,111	-	-	113,111
Equity mutual funds	446,224	-	-	446,224
Bond and ETF investments	122,474	-	-	122,474
<b>Total</b>	<b>\$ 785,417</b>	<b>\$ 186,417</b>	<b>\$ -</b>	<b>\$ 971,834</b>

**Note 5 - Promises to Give and Grants Receivable**

Unconditional promises to give and grants receivable as of August 31, 2022 were estimated to be collected as follows:

**Promises to Give**

Receivable due in one year or less	\$ 153,245
Receivable due in two to five years	105,324
	258,569
Less time value discount of 3.75%	(10,264)
<b>Total promises to give, net</b>	<b>\$ 248,305</b>

**Grants Receivable**

Receivables due in one year or less	\$ 251,445
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At August 31, 2022, two grants accounted for 70% of total grants receivable.

**Note 6 - Property and Equipment**

Property and equipment consists of the following as of August 31, 2022:

Land	\$ 69,935
Buildings	2,850,923
Furnishings, software and equipment	<u>758,362</u>
	3,679,220
Less accumulated depreciation	<u>(2,620,696)</u>
Total property and equipment, net	<u><u>\$ 1,058,524</u></u>

Depreciation expense, net of rental activities depreciation expense, for the year ended August 31, 2022 was \$99,218.

**Note 7 - Line of Credit**

RAM has a line of credit with Provident Savings Bank for \$175,000. The provisions of the line of credit require a security interest in the deposits held by Provident Savings Bank. The amount outstanding was \$64,759 for the year ended August 31, 2022, with an effective interest rate of 3.75 percent per annum. The amount held as collateral for the line of credit at August 31, 2022 was \$84,459, and is classified as restricted cash and cash equivalents on the statement of financial position.

**Note 8 - Paycheck Protection Program (PPP) Notes Payable**

During 2021, RAM was granted a \$185,518 loan under the PPP administered by a Small Business Administration-(SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the federal government. RAM initially recorded the amount received as a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA. RAM recognized \$187,104 of loan forgiveness income for the year ended August 31, 2022, which includes \$1,586 in forgiven interest expense.

**Note 9 - Net Assets without Donor Restrictions**

Net assets without donor restrictions at August 31, 2022, are as follows:

Undesignated	\$ 3,008,114
Board-designated reserve	<u>78,174</u>
Total net assets without donor restrictions	<u><u>\$ 3,086,288</u></u>



net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. RAM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of RAM and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of RAM
- The investment policies of RAM

As of August 31, 2022, endowment net asset composition by type of fund is as follows:

	With Donor Restrictions
Donor-restricted endowment funds	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	
RAM Endowment	\$ 184,070
Littleworth Endowment	47,235
	231,305
With donor restrictions- maintained in perpetuity	
Unappropriated investment earnings	
RAM Endowment- for general operations	158,338
Littleworth Endowment- for youth art education scholarships	9,030
	167,368
With donor restrictions- unappropriated investment earnings	
Total donor-restricted endowment funds	\$ 398,673

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 UPMIFA requires RAM to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in donor-restricted net assets, when applicable.

RAM 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 RAM must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, 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, 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, RAM 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). RAM 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.

RAM has not adopted a spending rate formula and has not taken any distributions for the year ended August 31, 2022. There are no endowments determined to be underwater as of August 31, 2022.

Changes in Endowment net assets for the year ended August 31, 2022 is as follows:

	With Donor Restrictions
Endowment net assets, beginning of year	\$ 451,246
Contributions	15,000
Investment return, net	(67,573)
Endowment net assets, end of year	\$ 398,673

#### **Note 12 - Concentrations of Credit and Market Risk**

Financial instruments that potentially expose RAM 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 (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF) up to \$250,000. Cash and money market funds in the investment accounts are not insured by the Securities Investor Protection Corporation (SIPC) or the FDIC. Cash balances in banks and credit unions in excess of the FDIC and NCUSIF insurance coverage was \$4,009,965 at August 31, 2022. RAM's investments do not represent significant concentrations of market risk in as much as RAM'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.

**Note 13 - City of Riverside Management Agreement**

RAM administers, pursuant to a management agreement with the City of Riverside (City), a city-owned building housing The Cheech Center. The City directly pays all utilities and certain capital costs of maintaining this building. The amount of utilities costs was \$26,403 for the year ended August 31, 2022, and has been recorded in the financial statements in the revenue caption City appropriations for expenses and offset by an equal amount of expense that has been charged to utilities expense. The City also provides appropriations for the general operating support of The Cheech Center. Such appropriations amounted to \$266,666 during the year ended August 31, 2022, and have been recorded in the financial statements in the revenue caption City management fee. Additionally, to help underwrite the future maintenance and operation of the building, the management agreement requires that RAM remit to the City a portion of all paid admissions to and facility rental events held at The Cheech Center. These amounts totaled \$69,581 during the year ended August 31, 2022, and have been recorded in the financial statements in the expense caption City facilities maintenance fee.

Prior to RAM's occupancy of The Cheech Center in 2022, the City and RAM made substantial renovations to the building, formerly the City's downtown Main Library. As part of the renovation contribution agreement negotiated between RAM and the City, and in conjunction with the above-mentioned management agreement, RAM agreed to reimburse the City for certain costs associated with renovations required in the adaptation of the building for reuse as an art center. During the year ended August 31, 2022, RAM's renovation contribution to the City totaled \$1,509,237 and has been recorded in the financial statements in the expense caption Renovation contribution to the City.

**Note 14 - Related Party Transactions**

In the ordinary course of business, RAM has and expects to continue to have transactions with its employees and board members. In the opinion of management, such transactions were on substantially the same terms as those prevailing at the time of comparable transactions with other persons.