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November 15, 2019

Mr. Brian Austin  
Rochester Art Center  
40 Civic Center Drive SE  
Rochester, MN 55904

Dear Mr. Austin:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of Rochester Art Center as of June 30, 2019. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, Rochester Art Center will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, Rochester Art Center also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when Rochester Art Center seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

Randolph L. Johnson, Partner  
+1 507 226 0431

wpd  
Attachment

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# Rochester Art Center

Financial Report  
June 30, 2019

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
Rochester Art Center

### Report on the Financial Statements

We have audited the accompanying financial statements of Rochester Art Center, which comprise the statements of financial position as of June 30, 2019 and December 31, 2017, the related statements of activities and changes in net assets and cash flows for the 18 months ended June 30, 2019, and the year ended December 31, 2017, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochester Art Center as of June 30, 2019 and December 31, 2017, and the results of its operations and its cash flows for the 18 months ended June 30, 2019, and the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Rochester, Minnesota  
November 15, 2019

**Rochester Art Center**

**Statements of Financial Position  
June 30, 2019 and December 31, 2017**

	June 30, 2019	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash	\$ 295,681	\$ 37,298
Receivables:		
Trade	23,326	6,178
Pledges (Note 3)	35,000	18,944
Inventory	657	657
Prepaid expenses	79,944	1,142
<b>Total current assets</b>	<b>434,608</b>	<b>64,219</b>
Property and equipment:		
Leasehold interest in facility, net (Note 6)	5,587,816	5,840,532
Furniture and equipment, net	8,596	14,553
<b>Net property and equipment</b>	<b>5,596,412</b>	<b>5,855,085</b>
Other assets:		
Works of art	84,742	84,742
<b>Total assets</b>	<b>\$ 6,115,762</b>	<b>\$ 6,004,046</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 29,581	\$ 75,382
Accrued expenses	10,164	2,565
Deferred revenue	209,450	56,309
<b>Total current liabilities</b>	<b>249,195</b>	<b>134,256</b>
Net assets (Notes 4 and 6):		
Without donor restrictions:		
Undesignated (deficit)	142,293	(107,369)
Invested in:		
Equipment	8,596	14,553
Works of art	84,742	84,742
<b>Total without donor restrictions (deficit)</b>	<b>235,631</b>	<b>(8,074)</b>
With donor restrictions	5,630,936	5,877,864
<b>Total net assets</b>	<b>5,866,567</b>	<b>5,869,790</b>
	<b>\$ 6,115,762</b>	<b>\$ 6,004,046</b>

See notes to financial statements.

**Rochester Art Center**

**Statement of Activities and Changes in Net Assets  
Eighteen Months Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support:			
General contributions	\$ 58,616	\$ -	\$ 58,616
Grants:			
City of Rochester (Note 6)	521,200	-	521,200
Others	237,678	138,445	376,123
Membership	18,080	-	18,080
Fundraisers	90	-	90
In-kind	470	-	470
<b>Total public support</b>	<b>836,134</b>	<b>138,445</b>	<b>974,579</b>
Revenues:			
Admissions	28,277	-	28,277
Rentals	196,028	-	196,028
Gallery shop	7,646	-	7,646
Exhibitions	7,249	-	7,249
Education	29,637	-	29,637
Special programs	5,248	-	5,248
Other	11	-	11
<b>Total revenues</b>	<b>274,096</b>	<b>-</b>	<b>274,096</b>
Net assets released from restrictions (Note 6)	385,373	(385,373)	-
<b>Total support and revenues</b>	<b>1,495,603</b>	<b>(246,928)</b>	<b>1,248,675</b>
Expenses:			
Program services	809,511	-	809,511
Supporting services:			
Fundraising	57,014	-	57,014
Management and general	385,373	-	385,373
<b>Total expenses</b>	<b>1,251,898</b>	<b>-</b>	<b>1,251,898</b>
<b>Change in net assets</b>	<b>243,705</b>	<b>(246,928)</b>	<b>(3,223)</b>
Net assets, beginning	(8,074)	5,877,864	5,869,790
Net assets, ending	\$ 235,631	\$ 5,630,936	\$ 5,866,567

See notes to financial statements.

**Rochester Art Center**

**Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2017**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support:			
General contributions	\$ 65,756	\$ -	\$ 65,756
Grants:			
City of Rochester (Note 6)	325,000	-	325,000
Others	145,954	29,212	175,166
Corporate sponsorships	5,861	-	5,861
Membership	13,621	-	13,621
Fundraisers	36,624	-	36,624
In-kind	36,095	-	36,095
<b>Total public support</b>	<b>628,911</b>	<b>29,212</b>	<b>658,123</b>
Revenues:			
Admissions	18,023	-	18,023
Rentals	140,692	-	140,692
Gallery shop	3,794	-	3,794
Exhibitions	21,597	-	21,597
Education	25,942	-	25,942
Special programs	678	-	678
Other	4	-	4
<b>Total revenues</b>	<b>210,730</b>	<b>-</b>	<b>210,730</b>
Net assets released from restrictions (Note 6)	257,509	(257,509)	-
<b>Total support and revenues</b>	<b>1,097,150</b>	<b>(228,297)</b>	<b>868,853</b>
Expenses:			
Program services	593,877	-	593,877
Supporting services:			
Fundraising	84,811	-	84,811
Management and general	324,890	-	324,890
<b>Total expenses</b>	<b>1,003,578</b>	<b>-</b>	<b>1,003,578</b>
<b>Change in net assets</b>	<b>93,572</b>	<b>(228,297)</b>	<b>(134,725)</b>
Net assets, beginning	(101,646)	6,106,161	6,004,515
Net assets, ending	\$ (8,074)	\$ 5,877,864	\$ 5,869,790

See notes to financial statements.



Rochester Art Center

Statements of Cash Flows

Eighteen Months Ended June 30, 2019 and Year Ended December 31, 2017

	Eighteen Months Ended June 30, 2019	Year Ended December 31, 2017
Cash flows from operating activities:		
Change in net assets	\$ (3,223)	\$ (134,725)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,606	5,908
Amortization of leasehold interest	252,716	168,477
(Increase) decrease in assets:		
Receivables	(33,204)	38,136
Prepaid expenses	(78,802)	(1,142)
Increase (decrease) in liabilities:		
Accounts payable	(45,801)	(73,538)
Accrued expenses	7,599	(9,815)
Deferred revenue	153,141	(3,841)
<b>Net cash provided by (used in) operating activities</b>	<b>259,032</b>	<b>(10,540)</b>
Cash flows from investing activities:		
Purchase of property and equipment	(649)	(2,909)
<b>Net increase (decrease) in cash</b>	<b>258,383</b>	<b>(13,449)</b>
Cash, beginning	37,298	50,747
Cash, ending	<b>\$ 295,681</b>	<b>\$ 37,298</b>

See notes to financial statements.

## Rochester Art Center

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

**Nature of business:** Rochester Art Center (the Organization) is a nonprofit corporation organized under Chapter 309 of the revised statutes of the State of Minnesota. During the current period, the Organization changed its calendar year end to a fiscal year end of June 30. The accompanying statements of activities and changes in net assets and cash flows are therefore reported for the 18 months ended June 30, 2019. The Organization's purpose is to provide to the citizens of Rochester and southeastern Minnesota the opportunity to know, practice and enjoy the arts. In addition, the Organization works to show the vital relationship of the arts to our daily lives and to join with schools, churches, libraries and community groups to make Rochester a cultural center worthy of its scientific achievements. The Organization's primary funding comes from the City of Rochester (the City) (see Note 6) and through business and individual donations, grants and facility rental fees.

For the 18 months ended June 30, 2019, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a nonprofit organization classifies its net assets, as well as the information it presents in the financial statements and notes about liquidity, financial performance and cash flows. The ASU has been applied retrospectively to all periods presented. The Organization has elected to apply the practical expedient and not disclose prior-year liquidity and availability of resources. The adoption of this ASU did not impact the Organization's net asset balance, change in net assets, or cash flows for the year ended December 31, 2017.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash:** The Organization maintains cash in depository bank accounts that, at times, may exceed the insurance limits of the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts.

**Receivables:** Receivables that are expected to be collected within one year are recorded at net realizable value. Amounts not expected to be collected within one year are reported at present value of projected future cash flows using a risk-free interest rate. Management determines the allowance for uncollectible accounts by regularly evaluating individual balances and considering current financial and economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

At June 30, 2019 and December 31, 2017, management did not identify any receivables they believe to be uncollectible. No allowance for uncollectible accounts has been recorded.

**Revenue recognition:** Memberships and program fees are recognized as revenue over the period to which the membership or fees relate. Revenue from grants is recognized according to the terms of the agreements. All contributions and promises to give are recognized at the time the Organization has the unconditional right to receive them and are reported at fair value as without restrictions unless specifically restricted by the donor. Conditional contributions are recognized when the condition has been substantially met. Amounts recognized that are restricted for future periods or specific purposes are reported as increases in net assets with donor restrictions. 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 statements of activities and changes in net assets as net assets released from restrictions.

## Rochester Art Center

### Notes to Financial Statements

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

If the restriction is met in the period the related revenue is recognized, the amounts are reported only within the net assets without donor restrictions activity.

The Organization recognizes revenue on rental contracts on the date of the event. Amounts billed and collected before the event date are included in deferred revenue.

Many individuals have contributed a significant amount of time to activities of the Organization. The Organization does not recognize these contributed services as support unless the services received (1) create or enhance existing facilities or (2) require specialized skills and are provided by individuals possessing those skills. The Organization recognized \$470 and \$3,425 in contributed services during the 18 months ended June 30, 2019, and the year ended December 31, 2017, respectively.

Donated goods and equipment are reflected as support in the accompanying financial statements at their estimated fair value at the date of receipt. There were no facility improvements from the City of Rochester for the 18 months ended June 30, 2019 and \$32,670 for the year ended December 31, 2017, respectively (see Note 6), and are included in the total in-kind support recognized by the Organization of \$470 and \$36,100 during the 18 months ended June 30, 2019, and the year ended December 31, 2017, respectively.

**Functional expense allocation:** The cost of providing various programs and other activities has been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the corresponding functional classifications, such as major classes of program services and supporting activities that benefit from such costs.

**Works of art:** The Organization recognizes works of art as assets. Donations of works of art are recorded at fair value at the date of the gift based on independent appraisals or valuations. Purchases of works of art are recorded at cost. Long-lived assets, such as works of art, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment was recorded as of June 30, 2019 or December 31, 2017.

**Inventory:** Gallery shop inventory is valued at the lower of cost (first-in, first-out) or net realizable value.

**Furniture and equipment:** Furniture and equipment are stated at cost, if purchased, or at fair value on the date received, if donated, less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful life of the various assets (five to 10 years for the furniture and equipment). At June 30, 2019 and December 31, 2017, accumulated depreciation was \$616,250 and \$609,644, respectively. Depreciation expense for the 18 months ended June 30, 2019, and the year ended December 31, 2017, was \$6,606 and \$5,908, respectively.

**Leasehold interest in facility:** The leasehold interest in the Rochester Art Center facility is stated at cost less amortization. Amortization is provided on the straight-line basis over the remaining term of the lease (see Note 6).

## Rochester Art Center

### Notes to Financial Statements

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

**Net assets:** For financial reporting purposes, the Organization classifies its activities as net assets without donor restrictions or net assets with donor restrictions based on the existence or absence of donor-imposed restrictions as follows:

**Without donor restrictions:** Net assets without donor restrictions are not subject to donor-imposed restrictions. These are funds that are presently available for use by or on behalf of the Organization, including amounts available for management and general expenses. These net assets may also include Board-designated amounts, but as of the 18 months ended June 30, 2019, and the year ended December 31, 2017, there were none.

**With donor restrictions:** Net assets with donor restrictions have donor-imposed stipulations that can be fulfilled by certain actions of the Organization. These are primarily contributions that are time-restricted or purpose-restricted for certain projects. These can also include net assets that are contributions that have donor-imposed restrictions whereby the amount of the gift is to be held in perpetuity and only the income generated can be used as stipulated by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Income taxes:** The Organization is generally exempt from federal income taxes as a public charity under section 501(c)(3) of the Internal Revenue Code. The Organization files federal exempt income tax returns. As of June 30, 2019, generally, the federal and Minnesota tax returns for the Organization are open for examination by taxing authorities for the years 2016 to 2018. There was no material unrelated business income for the 18 months ended June 30, 2019, and the year ended December 31, 2017.

As of June 30, 2019, management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax provisions that require adjustment to the financial statements to comply with the provisions of the Income Taxes topic of the Financial Accounting Standards Board (FASB) *FASB Accounting Standards Codification*.

**Recent accounting pronouncements:** In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Contribution public support revenue has been scoped out of this ASU; therefore, only the other revenue sources of the Organization will be impacted by the ASU. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard becomes effective for the Organization for the year beginning January 1, 2019. Management is currently evaluating the effect that the standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. While both lessees and lessors are affected by the new guidance, the effects on lessees are much more significant. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which right-of-use assets and lease liabilities are not recognized and lease payments are generally recognized as expense over the lease term on a straight-line basis. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. For many entities, this could significantly affect the financial ratios they use for external reporting and other purposes, such as debt covenant compliance. The ASU is effective for the Organization for the year beginning January 1, 2021. Management is currently evaluating the effect that the standard will have on its financial statements.

## Rochester Art Center

### Notes to Financial Statements

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

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As the Organization, a resource recipient, the ASU is applicable to contributions received for annual periods beginning on January 1, 2019. Early adoption is permitted. The Organization is currently evaluating the impact of the adoption of this guidance on its financial statements.

**Reclassifications:** The net assets in the 2017 financial statements have been reclassified to conform to the 2019 presentation. Under ASU 2016-14, the reclassification had no impact on the changes in net assets or on the net assets as previously reported.

**Subsequent events:** In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 15, 2019, the date the financial statements were available to be issued.

#### Note 2. Liquidity and Availability

Financial assets available for general operating use without donor or other restrictions limiting their use within one year of the statement of financial position date comprise the following as of June 30, 2019:

Financial assets:

Cash	\$ 295,681
Trade receivables	23,326
Pledges	<u>35,000</u>
	354,007
Less those unavailable for general expenditures within one year, due to:	
Restrictions by donor with time or purpose restrictions	(35,000)
Restrictions by donor to be held in perpetuity	<u>(8,120)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 310,887</u></u>

## Rochester Art Center

### Notes to Financial Statements

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#### Note 2. Liquidity and Availability (Continued)

As part of the Organization's internal cash management process, the Organization aims to maintain operating liquidity balances of at least three months of operating expenses. In addition, the Organization regularly monitors the availability of resources required to manage liquidity.

Management of the timing of commitments and the use of financial assets available to the Organization is reviewed monthly by the Board of Directors. Further, the Organization prepares annual budgets to support this review process.

#### Note 3. Pledges Receivable

As of June 30, 2019 and December 31, 2017, pledges receivable are approximately \$35,000 and \$18,900, respectively, and are all expected to be collected in the next year. No allowance for uncollectible pledges receivable has been recorded.

#### Note 4. Net Assets

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2019 and December 31, 2017:

	June 30, 2019	December 31, 2017
Time-restricted:		
Operations	\$ 35,000	\$ 29,212
Time-restricted based on the life of the lease agreement:		
Leasehold interest in facility	5,587,816	5,840,532
	<u>5,622,816</u>	<u>5,869,744</u>
Net assets held in perpetuity:		
Endowment Fund: The fund was established in 2005 to support the long-term financial stability of Rochester Art Center.	1,100	1,100
John Riese Memorial Fund: The fund was established in 1994 to recognize high school students' excellence in art.	7,020	7,020
	<u>8,120</u>	<u>8,120</u>
Total net assets with donor restrictions	<u>\$ 5,630,936</u>	<u>\$ 5,877,864</u>

## Rochester Art Center

### Notes to Financial Statements

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#### Note 5. Funds Held by Others

**Rickee Henoch Art Fund:** The Rickee Henoch Art Fund is a donor-designated fund established in 1989 to provide funding for Rochester Art Center in support of its programs, special events or other special needs relating to arts and education. The principal and investment of the funds are under the control of the Rochester Area Foundation, which has the ability to grant out the income of the fund to the Organization, and are not reflected in the Organization's financial statements. The total funds held by the Rochester Area Foundation as of June 30, 2019 and December 31, 2017, were \$55,660 and \$24,805, respectively. The Organization did not receive any distributions from this fund during the 18 months ended June 30, 2019, or the year ended December 31, 2017.

**Rochester Art Center Fund:** The Rochester Art Center Fund is an agency endowment fund established by the Organization in 1998 to provide long-term sustainable endowment growth for the Organization. The principal and investment of the funds are under the control of the Rochester Area Foundation, which has the ability to grant out the income of the fund to the Organization, or other similar board-approved organizations, and are not reflected in the Organization's financial statements. The total funds held by the Rochester Area Foundation as of June 30, 2019 and December 31, 2017, were \$14,456 and \$14,184, respectively. The Organization did not receive any distributions from this fund during the 18 months ended June 30, 2019, or the year ended December 31, 2017.

#### Note 6. Leasehold Interest in Facility and Concentration

The Organization completed a capital campaign to fund the construction of the Rochester Art Center facility, which was completed in 2004 and constructed on land owned by the City of Rochester. The Organization exchanged the facility with the City for a 50-year lease. The lease terms are a \$1 annual fee through December 2052. This agreement was reported as a contribution, and as of June 30, 2019, is reported as an asset in the accompanying statements of financial position as a leasehold interest in facility. The Organization recognized a release from restriction and amortization of leasehold interest of \$252,716 and \$168,477 during the 18 months ended June 30, 2019, and the year ended December 31, 2017, respectively. The Organization is responsible for routine maintenance, and the City is responsible for major capital improvements.

The Organization receives a significant amount of support from the City in the form of other unrestricted contributions for operating activities and grants for minor facility improvements. For the 18 months ended June 30, 2019, and the year ended December 31, 2017, the Organization recognized approximately \$521,000 and \$325,000, respectively, in grant revenues. The Organization did not recognize anything in facility repairs for the 18 months ended June 30, 2019, and approximately \$33,000 for the year ended December 31, 2017. This support from the City represents approximately 42% and 41% of total support and revenues for the 18 months ended June 30, 2019, and the year ended December 31, 2017, respectively.

## Rochester Art Center

### Notes to Financial Statements

#### Note 7. Functional Expenses

The financial statements present certain expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied, such as major classes of program services and supporting activities that benefit from such costs. The expenses reported in the statement of activities and changes in net assets for the 18 months ended June 30, 2019, are supported by the following programs and functions:

	2019			Total Expenses
	Program Services	Supporting Services Fundraising Expenses	Management and General	
Salaries and wages	\$ 239,155	\$ 34,323	\$ 109,871	\$ 383,349
Payroll taxes	26,200	3,664	11,240	41,104
Employee benefits	4,253	882	2,703	7,838
Total salaries and related expenses	269,608	38,869	123,814	432,291
Equipment purchase and repair	1,403	-	33,522	34,925
Supplies	23,260	-	10,618	33,878
Postage and printing	1,137	647	463	2,247
Shipping and transportation	4,961	-	-	4,961
Advertising	8,274	-	2,063	10,337
Utilities	118,174	6,952	48,636	173,762
Computer and telephone	10,575	608	4,218	15,401
Dues and subscriptions	1,216	4,737	3,246	9,199
Miscellaneous	295	-	545	840
Contract labor	122,918	-	49,226	172,144
Travel	1,770	-	-	1,770
Professional services	-	-	65,524	65,524
Bank and credit card fees	1,920	2	2,847	4,769
Insurance	250	-	30,278	30,528
Total operating expenses	565,761	51,815	375,000	992,576
Amortization of leasehold interest	237,542	5,067	10,107	252,716
Depreciation	6,208	132	266	6,606
Total other operating expenses	243,750	5,199	10,373	259,322
Total expenses	\$ 809,511	\$ 57,014	\$ 385,373	\$ 1,251,898



## Rochester Art Center

### Notes to Financial Statements

#### Note 7. Functional Expenses (Continued)

The expenses reported in the statement of activities and changes in net assets for the year ended December 31, 2017, are supported the following programs and functions:

	2017			
	Program Services	Supporting Services		Total Expenses
		Fundraising Expenses	Management and General	
Salaries and wages	\$ 146,011	\$ 48,678	\$ 129,793	\$ 324,482
Payroll taxes	9,922	1,310	7,488	18,720
Employee benefits	4,878	1,048	3,718	9,644
Total salaries and related expenses	160,811	51,036	140,999	352,846
Equipment purchase and repair	4,496	1,330	13,548	19,374
Supplies	13,856	1,768	6,374	21,998
Postage and printing	20,860	95	3,811	24,766
Shipping and transportation	5,899	-	-	5,899
Advertising	894	1,697	9,182	11,773
Utilities	73,522	6,684	53,470	133,676
Computer and telephone	10,766	979	7,830	19,575
Exhibition openings	59,643	-	-	59,643
Fundraising event catering	-	2,394	-	2,394
Dues and subscriptions	1,294	3,817	192	5,303
Miscellaneous	2,304	163	827	3,294
Contract labor	49,843	10,459	6,370	66,672
Travel	4,091	-	-	4,091
Professional services	-	-	70,966	70,966
Bank and credit card fees	912	457	3,464	4,833
Insurance	20,766	442	882	22,090
Total operating expenses	429,957	81,321	317,915	829,193
Amortization of leasehold interest	158,368	3,370	6,739	168,477
Depreciation	5,552	120	236	5,908
Total other operating expenses	163,920	3,490	6,975	174,385
Total expenses	\$ 593,877	\$ 84,811	\$ 324,890	\$ 1,003,578

#### Note 8. Going Concern and Management's Plans

The Organization has prepared its financial statements on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. During the 18 months ended June 30, 2019, the Organization continued to experience operating losses. Management projects that there will be no further erosion in liquidity for fiscal year 2020 due to continued support from the City of Rochester in the amount of \$357,000. These financial statements do not include adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Organization be unable to continue as a going concern.

**Rochester Art Center**

**Schedule of Financial Position  
June 30, 2019 and December 31, 2018**

	June 30, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash	\$ 295,681	\$ 156,970
Receivables:		
Trade	23,326	7,377
Pledges (Note 3)	35,000	60,672
Inventory	657	657
Prepaid expenses	79,944	1,397
<b>Total current assets</b>	<b>434,608</b>	<b>227,073</b>
Property and equipment:		
Leasehold interest in facility (Note 6)	5,587,816	5,672,054
Furniture and equipment, net	8,596	9,948
<b>Net property and equipment</b>	<b>5,596,412</b>	<b>5,682,002</b>
Other assets:		
Works of art	84,742	84,742
<b>Total assets</b>	<b>\$ 6,115,762</b>	<b>\$ 5,993,817</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 29,581	\$ 6,334
Accrued expenses	10,164	8,065
Deferred revenue	209,450	50,323
<b>Total current liabilities</b>	<b>249,195</b>	<b>64,722</b>
Net assets (Notes 4 and 6):		
Without donor restrictions:		
Undesignated	142,293	85,008
Invested in:		
Equipment	8,596	9,948
Works of art	84,742	84,742
<b>Total without donor restrictions</b>	<b>235,631</b>	<b>179,698</b>
With donor restrictions	5,630,936	5,749,397
<b>Total net assets</b>	<b>5,866,567</b>	<b>5,929,095</b>
	<b>\$ 6,115,762</b>	<b>\$ 5,993,817</b>

**Rochester Art Center**

**Schedule of Activities and Changes in Net Assets  
Six Months Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support:			
General contributions	\$ 14,129	\$ -	\$ 14,129
Grants:			
City of Rochester (Note 6)	173,500	-	173,500
Others	82,525	-	82,525
Corporate sponsorships	-	-	-
Membership	7,488	-	7,488
Fundraisers	-	-	-
In-kind	-	-	-
<b>Total public support</b>	<b>277,642</b>	<b>-</b>	<b>277,642</b>
Revenues:			
Admissions	6,047	-	6,047
Rentals	53,543	-	53,543
Gallery shop	1,551	-	1,551
Exhibitions	4,220	-	4,220
Education	13,427	-	13,427
Special programs	2,696	-	2,696
Other	4	-	4
<b>Total revenues</b>	<b>81,488</b>	<b>-</b>	<b>81,488</b>
Net assets released from restrictions	118,461	(118,461)	-
<b>Total support and revenues</b>	<b>477,591</b>	<b>(118,461)</b>	<b>359,130</b>
Expenses:			
Program services	302,500	-	302,500
Supporting services:			
Fundraising	16,524	-	16,524
Management and general	102,634	-	102,634
<b>Total expenses</b>	<b>421,658</b>	<b>-</b>	<b>421,658</b>
<b>Change in net assets</b>	<b>55,933</b>	<b>(118,461)</b>	<b>(62,528)</b>
Net assets, beginning	179,698	5,749,397	5,929,095
Net assets, ending	<b>\$ 235,631</b>	<b>\$ 5,630,936</b>	<b>\$ 5,866,567</b>

**Rochester Art Center**

**Schedule of Activities and Changes in Net Assets  
Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support:			
General contributions	\$ 44,487	\$ -	\$ 44,487
Grants:			
City of Rochester (Note 6)	347,700	-	347,700
Others	155,153	138,445	293,598
Corporate sponsorships	-	-	-
Membership	10,592	-	10,592
Fundraisers	90	-	90
In-kind	470	-	470
<b>Total public support</b>	<b>558,492</b>	<b>138,445</b>	<b>696,937</b>
Revenues:			
Admissions	22,230	-	22,230
Rentals	142,485	-	142,485
Gallery shop	6,095	-	6,095
Exhibitions	3,029	-	3,029
Education	16,210	-	16,210
Special programs	2,552	-	2,552
Other	7	-	7
<b>Total revenues</b>	<b>192,608</b>	<b>-</b>	<b>192,608</b>
Net assets released from restrictions	266,912	(266,912)	-
<b>Total support and revenues</b>	<b>1,018,012</b>	<b>(128,467)</b>	<b>889,545</b>
Expenses:			
Program services	507,011	-	507,011
Supporting services:			
Fundraising	40,490	-	40,490
Management and general	282,739	-	282,739
<b>Total expenses</b>	<b>830,240</b>	<b>-</b>	<b>830,240</b>
<b>Change in net assets</b>	<b>187,772</b>	<b>(128,467)</b>	<b>59,305</b>
Net assets, beginning	(8,074)	5,877,864	5,869,790
Net assets, ending	\$ 179,698	\$ 5,749,397	\$ 5,929,095

Rochester Art Center

Schedule of Cash Flows

Six Months Ended June 30, 2019 and Year Ended December 31, 2018

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
Cash flows from operating activities:		
Change in net assets	\$ (62,528)	\$ 59,305
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,000	4,606
Amortization of leasehold interest	84,239	168,477
(Increase) decrease in assets:		
Receivables	9,723	(42,927)
Prepaid expenses	(78,547)	(255)
Increase (decrease) in liabilities:		
Accounts payable	23,247	(69,048)
Accrued expenses	2,099	5,500
Deferred revenue	159,127	(5,986)
<b>Net cash provided by operating activities</b>	<b>139,360</b>	<b>119,672</b>
Cash flows from investing activities:		
Purchase of property and equipment	(649)	-
<b>Net increase in cash</b>	<b>138,711</b>	<b>119,672</b>
Cash, beginning	156,970	37,298
Cash, ending	<b>\$ 295,681</b>	<b>\$ 156,970</b>

**Rochester Art Center**

**Schedule of Functional Expenses  
Six Months Ended June 30, 2019**

	Program Services	Supporting Services		Total Expenses
		Fundraising Expenses	Management and General	
Salaries and wages	\$ 87,244	\$ 11,572	\$ 31,202	\$ 130,018
Payroll taxes	12,170	1,614	4,352	18,136
Employee benefits	475	339	542	1,356
Total salaries and related expenses	99,889	13,525	36,096	149,510
Equipment purchase and repair	400	-	11,316	11,716
Supplies	8,249	-	2,917	11,166
Postage and printing	329	-	69	398
Shipping and transportation	217	-	-	217
Advertising	4,865	-	2,063	6,928
Utilities	54,487	1,162	2,318	57,967
Computer and telephone	5,072	108	216	5,396
Dues and subscriptions	541	-	2,062	2,603
Miscellaneous	20	-	311	331
Contract labor	45,188	-	16,422	61,610
Travel	1,138	-	-	1,138
Professional services	-	-	15,000	15,000
Bank and credit card fees	794	-	631	1,425
Insurance	250	-	9,764	10,014
Total operating expenses	221,439	14,795	99,185	335,419
Amortization of leasehold interest	79,181	1,689	3,369	84,239
Depreciation	1,880	40	80	2,000
Total other operating expenses	81,061	1,729	3,449	86,239
Total expenses	\$ 302,500	\$ 16,524	\$ 102,634	\$ 421,658

**Rochester Art Center**

**Schedule of Functional Expenses  
Year Ended December 31, 2018**

	Program Services	Supporting Services		Total Expenses
		Fundraising Expenses	Management and General	
Salaries and wages	\$ 151,911	\$ 22,751	\$ 78,669	\$ 253,331
Payroll taxes	14,030	2,050	6,888	22,968
Employee benefits	3,778	543	2,161	6,482
Total salaries and related expenses	169,719	25,344	87,718	282,781
Equipment purchase and repair	1,003	-	22,206	23,209
Supplies	15,011	-	7,701	22,712
Postage and printing	808	647	394	1,849
Shipping and transportation	4,744	-	-	4,744
Advertising	3,409	-	-	3,409
Utilities	63,687	5,790	46,318	115,795
Computer and telephone	5,503	500	4,002	10,005
Dues and subscriptions	675	4,737	1,184	6,596
Miscellaneous	275	-	234	509
Contract labor	77,730	-	32,804	110,534
Travel	632	-	-	632
Professional services	-	-	50,524	50,524
Bank and credit card fees	1,126	2	2,216	3,344
Insurance	-	-	20,514	20,514
Total operating expenses	344,322	37,020	275,815	657,157
Amortization of leasehold interest	158,361	3,378	6,738	168,477
Depreciation	4,328	92	186	4,606
Total other operating expenses	162,689	3,470	6,924	173,083
Total expenses	\$ 507,011	\$ 40,490	\$ 282,739	\$ 830,240

