

# AndersonRanch arts center

## Financial Statements

*For the Year Ended December 31, 2018*

*(With Summarized Financial Information for the Year Ended December 31, 2017)*



**and  
Report Thereon**



**ANDERSON RANCH ARTS FOUNDATION**

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

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the  
Anderson Ranch Arts Center

We have audited the accompanying financial statements of the Anderson Ranch Arts Center (the Ranch), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **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.

Continued

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Anderson Ranch Arts Center as of December 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.

## **Change in Accounting Principle**

As described in Note 1 to the financial statements, the Ranch restated its net assets with and without donor restrictions as of December 31, 2017, to reflect the implementation of a new accounting pronouncement with respect to the Ranch's underwater endowments. Our opinion is not modified with respect to that matter.

## **Report on Summarized Comparative Information**

The 2017 financial statements of the Ranch were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated April 6, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it was derived.

*Marcum LLP*

Washington, DC  
March 20, 2019

**ANDERSON RANCH ARTS CENTER**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2018**  
**(With Summarized Financial Information as of December 31, 2017)**

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,121,181	\$ 1,400,032
Pledges receivable, net	536,094	651,508
Accounts receivable	17,762	-
Inventory and other assets	272,658	241,535
Investments	8,066,857	8,581,641
Fixed assets, net	4,214,302	4,222,907
<b>TOTAL ASSETS</b>	<b>\$ 14,228,854</b>	<b>\$ 15,097,623</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 117,742	\$ 180,670
Deferred revenue	28,493	7,065
<b>TOTAL LIABILITIES</b>	<b>146,235</b>	<b>187,735</b>
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	5,420,980	5,581,073
Designated by the Board for operating reserve	847,795	868,393
Total Without Donor Restrictions	6,268,775	6,449,466
With donor restrictions	7,813,844	8,460,422
<b>TOTAL NET ASSETS</b>	<b>14,082,619</b>	<b>14,909,888</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 14,228,854</b>	<b>\$ 15,097,623</b>

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

**ANDERSON RANCH ARTS CENTER**

**STATEMENT OF ACTIVITIES**

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

**(With Summarized Financial Information for the Year Ended December 31, 2017)**

	2018			
	Without Donor Restrictions	With Donor Restrictions	Total	2017 Total
<b>REVENUE AND SUPPORT</b>				
Grants and contributions	\$ 1,734,226	\$ 483,774	\$ 2,218,000	\$ 2,043,501
Program service revenue	2,041,035	-	2,041,035	1,967,663
Special events	1,379,232	-	1,379,232	1,404,477
Appropriations for expenditure	-	158,958	158,958	299,314
Miscellaneous income	2,955	-	2,955	21,647
Net assets released from restrictions:				
Satisfaction of time restrictions	436,541	(436,541)	-	-
Satisfaction of program restrictions	201,597	(201,597)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>5,795,586</b>	<b>4,594</b>	<b>5,800,180</b>	<b>5,736,602</b>
<b>OPERATING EXPENSES</b>				
Program Services:				
Workshops	2,181,016	-	2,181,016	2,009,364
Services	980,403	-	980,403	837,790
Residency	25,374	-	25,374	41,135
<b>Total Program Services</b>	<b>3,186,793</b>	<b>-</b>	<b>3,186,793</b>	<b>2,888,289</b>
Supporting Services:				
Management and general	1,894,759	-	1,894,759	1,718,669
Fundraising	874,128	-	874,128	818,166
<b>Total Supporting Services</b>	<b>2,768,887</b>	<b>-</b>	<b>2,768,887</b>	<b>2,536,835</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>5,955,680</b>	<b>-</b>	<b>5,955,680</b>	<b>5,425,124</b>
Change in net assets before nonoperating activities	(160,094)	4,594	(155,500)	311,478
<b>NONOPERATING ACTIVITIES</b>				
Investment Income:				
Net realized and unrealized gains (losses)	(25,059)	(632,773)	(657,832)	736,785
Interest and dividends, net of fees	4,462	143,709	148,171	59,623
Loss on uncollectible pledges	-	(3,150)	(3,150)	(45,931)
Appropriations for expenditure	-	(158,958)	(158,958)	(299,314)
Change in net assets from nonoperating activities	(20,597)	(651,172)	(671,769)	451,163
<b>CHANGE IN NET ASSETS</b>	<b>(180,691)</b>	<b>(646,578)</b>	<b>(827,269)</b>	<b>762,641</b>
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>	<b>6,449,466</b>	<b>8,460,422</b>	<b>14,909,888</b>	<b>14,147,247</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 6,268,775</b>	<b>\$ 7,813,844</b>	<b>\$ 14,082,619</b>	<b>\$ 14,909,888</b>

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

**ANDERSON RANCH ARTS CENTER**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2018**

	Program Services			Supporting Services			2018 Total	
	Workshops	Services	Residency	Total Program Services	General and Administrative	Fundraising		Total Supporting Services
Personnel costs	\$ 1,019,025	\$ 240,306	\$ 12,491	\$ 1,271,822	\$ 1,085,497	\$ 355,144	\$ 1,440,641	\$ 2,712,463
Facility costs	81,614	205,921	-	287,535	295,684	4,529	300,213	587,748
Professional fees	47,561	12,490	225	60,276	281,875	28,757	310,632	370,908
Supplies and small capital purchases	243,430	43,550	135	287,115	39,763	29,079	68,842	355,957
Food, beverage and housing	25,960	73,779	923	100,662	17,795	185,958	203,753	304,415
Depreciation and amortization	160,353	56,665	-	217,018	75,131	-	75,131	292,149
Honorarium	285,034	-	7,000	292,034	-	-	-	292,034
Cost of goods sold	-	271,412	-	271,412	-	-	-	271,412
Travel and entertainment	137,593	1,519	2,205	141,317	41,819	43,314	85,133	226,450
Advertising and publications	100,736	-	124	100,860	7,889	24,969	32,858	133,718
Donated goods and services	11,135	-	-	11,135	-	86,925	86,925	98,060
Fees and other taxes	49,825	22,279	-	72,104	1,102	20,141	21,243	93,347
Mailing and printing	9,843	2,353	363	12,559	23,486	51,606	75,092	87,651
Artwork and commissions	-	47,742	-	47,742	-	39,243	39,243	86,985
Other expenses	8,907	2,387	1,908	13,202	24,718	4,463	29,181	42,383
<b>TOTAL EXPENSES</b>	<b>\$ 2,181,016</b>	<b>\$ 980,403</b>	<b>\$ 25,374</b>	<b>\$ 3,186,793</b>	<b>\$ 1,894,759</b>	<b>\$ 874,128</b>	<b>\$ 2,768,887</b>	<b>\$ 5,955,680</b>

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

**ANDERSON RANCH ARTS CENTER**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2018**  
**(With Summarized Financial Information for the Year Ended December 31, 2017)**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (827,269)	\$ 762,641
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	292,149	332,592
Adjustments to allowance for doubtful pledges	(3,150)	45,931
Net realized and unrealized investment (gains) losses	657,832	(736,785)
Discount on pledges receivable, net of amortization	5,867	33,758
Cash contributions for permanent endowments	(165,500)	(326,500)
Changes in assets and liabilities:		
Pledges receivable	112,697	521,484
Accounts receivable	(17,762)	1,022
Inventory and other assets	(31,123)	(28,044)
Accounts payable and accrued expenses	(62,928)	31,592
Deferred revenue	21,428	(39,160)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(17,759)</b>	<b>598,531</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(2,953,739)	(9,689,961)
Sales of investments	2,810,691	9,573,572
Purchases of fixed assets	(283,544)	(294,502)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(426,592)</b>	<b>(410,891)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash contributions for permanent endowments	165,500	326,500
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>165,500</b>	<b>326,500</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(278,851)</b>	<b>514,140</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,400,032</b>	<b>885,892</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,121,181</b>	<b>\$ 1,400,032</b>

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



# ANDERSON RANCH ARTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

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### 1. Organization and Summary of Significant Accounting Policies

#### **Organization**

The Anderson Ranch Arts Foundation, d/b/a Anderson Ranch Arts Center (the Ranch), was organized as a nonprofit organization under the Colorado Nonprofit Corporation Act on March 7, 1973. The Ranch's purpose is to promote, sponsor and teach artistic courses and programs. The Ranch is located in the ski resort town of Snowmass Village, Colorado. Primary support is provided through donor contributions and program service income.

#### **Basis of Accounting**

The Ranch's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

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

The Ranch considers all highly liquid investments not held for long-term investment purposes with purchased maturities of three months or less to be cash equivalents.

#### **Pledges Receivable**

Promises to give are recognized as revenue in the period in which they are pledged and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Promises to give are recorded at their net realizable value if expected to be collected in one year or at their present value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Ranch provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. Changes in the valuation allowance have not been significant to the financial statements.

#### **Inventory**

Inventory consists of store merchandise and art supplies, which are recorded at net realizable value using the first-in, first-out method of inventory.

#### **Investments**

Investments consist of cash held for investment purposes, and fixed income and equity securities and are recorded in the financial statements at fair value, with gains and losses included in the statement of activities. Fair value is the price that would be received to sell an asset or liability through an orderly transaction between market participants at the measurement date.

## ANDERSON RANCH ARTS FOUNDATION

### NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

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#### 1. Organization and Summary of Significant Accounting Policies (continued)

##### **Investments (continued)**

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized gains or losses are determined by a comparison of fair value at the beginning and end of the year.

In accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, the Ranch has measured its applicable financial instruments at fair value on a recurring basis based on the required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument. The three levels of the fair value hierarchy are described as follows:

*Level 1* – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

*Level 3* – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

##### **Fixed Assets and Related Depreciation and Amortization**

Fixed assets are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives of three to 40 years. When property and equipment are disposed of or otherwise retired, the cost and related accumulated depreciation are removed, with any resulting gain or loss reflected in the accompanying statement of activities. Expenditures for maintenance and minor repairs are expensed in the year in which they are incurred. Expenditures for major repairs and improvements are capitalized. The capitalization policy is that all equipment and other fixed assets costing in excess of \$5,000 and with an economic life in excess of one year will be recorded as an asset. For a repair or improvement to be capitalized, the expenditure must extend the useful life of the asset repaired or improved.

##### **Impairment of Long-Lived Assets**

The Ranch reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There has been no impairment loss recognized as of December 31, 2018.

**ANDERSON RANCH ARTS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

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1. Organization and Summary of Significant Accounting Policies (continued)

**Collections**

The Ranch acquires its collections, which include various works of art, primarily by donation or loan, and occasionally by purchases. Collections are held for public exhibition, education or research. Each of the items is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are continuously performed. The collections are not recognized as assets in the accompanying statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

**Classification of Net Assets**

The Ranch's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for support of the Ranch's operations. Net assets without donor restrictions also include generous donor contributions that have not been restricted by the donor, but have been placed into a reserve fund to be prudently expended at the designation of the Ranch's Board of Trustees.
- Net assets with donor restrictions represent amounts that are specifically restricted by donors or grantors for various purposes or for use in future time periods, as well as endowment gifts requiring that the principal be invested in perpetuity and that only the investment income be expended for purposes designated by the donor.

**Revenue Recognition**

The Ranch recognizes program service revenue in the reporting period to which the revenue relates. Accordingly, amounts collected in advance are recorded as deferred revenue in the accompanying statement of financial position. Program service revenue consists of tuition, fees, meal sales, housing rentals and other sources of income and is reported on the accompanying statement of activities net of scholarships.

Grants and contributions are reported as increases in net assets without donor restrictions in the year in which payments are received and/or unconditional promises to give are made. Grants and contributions are considered without donor restriction and available for general operations unless specifically restricted by the donor. The Ranch reports grants of cash and other assets as increases to net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets to a particular purpose or to future periods. When the stipulated time restriction ends or the purpose of the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions. If the restriction ends or is met in the same period in which the restricted contribution was promised, the contribution is reported as an increase to net assets without donor restrictions.

## ANDERSON RANCH ARTS FOUNDATION

### NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

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#### 1. Organization and Summary of Significant Accounting Policies (continued)

##### **In-Kind Contributions**

In-kind contributions are recorded at fair value as revenue and expense in the accompanying statements of activities. Services are recognized as in-kind contributions if the services received create or enhance long-lived assets or if they require specialized skills, are provided by individuals possessing these skills and would typically need to be purchased if not donated. In-kind contributions primarily consist of donated professional services and software licenses.

##### **Advertising**

Marketing and advertising costs are expensed as incurred.

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

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Expenses that are identified as contributing to a specific activity, such as food, beverage and housing expenses, supplies, and cost of goods sold, are charged directly to that activity. Personnel costs of certain employees are allocated proportionately among the programs and supporting services based on estimates of time and effort. Facilities cost and depreciation expense is charged directly to programs based on the assigned use of each Ranch building. Advertising and publications costs have been allocated to programs based on tuition revenue, while credit card fees are allocated to programs based on revenue generated by credit card sales transactions.

##### **Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

##### **Measurement of Operations**

Operating revenue and expenses generally reflect those revenues and expenses that arise from the Ranch's activities and exclude investment income, which the Ranch defines as all interest, dividends, realized and unrealized gains and losses, and investment fees from investments.

##### **New Accounting Pronouncement**

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (the ASU). The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. The Ranch has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. Upon adopting the ASU, \$262,308 of underwater endowment balances as of December 31, 2017, were reclassified from net assets without donor restrictions to net assets with donor restrictions. There was no net effect on the 2017 change in net assets.

**ANDERSON RANCH ARTS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2018**

2. Pledges Receivable

For the year ended December 31, 2018, pledges receivable included unconditional promises to give from foundations and individuals. All amounts were deemed fully collectible and were expected to be paid as follows:

Due in less than one year	\$ 271,103
Due in one to five years	<u>285,000</u>
Total Pledges Receivable	556,103
Less: Discount to Present Value (1.2% – 3.0%)	<u>(20,009)</u>
Pledges Receivable, Net	<u><u>\$ 536,094</u></u>

3. Investments and Fair Value Measurement

The following table summarizes the Ranch's assets measured at fair value on a recurring basis as of December 31, 2018:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments:				
Equity securities:				
Equity income	\$ 1,541,655	\$ 1,541,655	\$ -	\$ -
Equity income growth	2,561,658	2,561,658	-	-
Equity international	713,563	713,563	-	-
Fixed income securities:				
Corporate bonds	<u>1,608,670</u>	<u>-</u>	<u>1,608,670</u>	<u>-</u>
Total Investments Measured in Fair Value Hierarchy	6,425,546	<u>\$ 4,816,876</u>	<u>\$ 1,608,670</u>	<u>\$ -</u>
Cash	<u>1,641,311</u>			
Total Investments	<u><u>\$ 8,066,857</u></u>			

Equity securities are valued at the closing price reported in the active market in which the equities are traded. Fixed income securities are valued based on current yields, the securities' terms and conditions, and market activity. Inputs used include market sources, credit information, observed market movement and sector news.

## ANDERSON RANCH ARTS FOUNDATION

### NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

#### 4. Fixed Assets

Fixed assets were composed of the following as of December 31, 2018:

Buildings and improvements	\$ 8,425,640
Equipment, website and furniture	2,545,462
Land	<u>248,045</u>
Total Fixed Assets	11,219,147
Less: Accumulated Depreciation and Amortization	<u>(7,004,845)</u>
Fixed Assets, Net	<u>\$ 4,214,302</u>

Depreciation and amortization expense was \$292,149 for the year ended December 31, 2018.

#### 5. Concentrations, Risks and Contingency

##### **Financial Instruments**

Financial instruments that potentially subject the Ranch to concentration of credit risk consist principally of cash balances maintained at various creditworthy financial institutions. While the amount at a given bank, at times, exceeds the amount guaranteed by federal agencies and, therefore, bears some risk, the Ranch has not experienced, nor does it anticipate, any losses on its funds. At December 31, 2018, the Ranch had approximately \$1,306,000 in excess of federally insured limits.

##### **Line of Credit**

The Ranch entered into a line of credit agreement on August 8, 2018, with a financial institution that is secured by the Ranch's investments held at the bank. As of December 31, 2018, \$119,433 was available. The interest rate is variable using the financial institution's commercial rate index added to the one month London Interbank Offered Rate, which, as of December 31, 2018, was 6.39%. The line of credit is due upon demand. As of and for the year ended December 31, 2018, no balance was outstanding and no draws or repayments were made on the line of credit, respectively.

##### **Employment Agreement**

The Ranch signed an employment agreement with its Executive Director effective January 14, 2019. Under the terms of the agreement, if the Ranch terminates the agreement for reasons other than cause, the Executive Director is entitled to receive severance pay of three months' annual salary at the rate at which the Executive Director is being compensated at the time of termination, any earned but unused vacation owed to the Executive Director and any previously earned unpaid salary through the date of termination.

## ANDERSON RANCH ARTS FOUNDATION

### NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

#### 6. Availability and Liquidity of Funds

The Ranch regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The following reflects the Ranch's financial assets as of December 31, 2018, reduced by amounts not available for general use:

Cash and cash equivalents	\$ 1,121,181
Pledges receivable, net	536,094
Accounts receivable	17,762
Investments	<u>8,066,857</u>
Total Financial Assets	9,741,894
Less assets unavailable for general expenditure within one year:	
Pledges with donor purpose restrictions	(440,790)
Pledges without donor purpose restrictions, but with payments due beyond one year	(25,000)
Cash, cash equivalents, and investments restricted by donors and held in endowment funds	(7,685,276)
Cash, cash equivalents, and investments restricted by donors for specific purposes	(390,003)
Cash, cash equivalents and investments unavailable for expenditure without board appropriation	(847,795)
Plus: Appropriation of endowment funds, without donor restrictions, for operations within one year	<u>152,477</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 505,507</u>

The Ranch has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Ranch throughout the year. As a result, management is aware of the cyclical nature of the Ranch's cash flow related to the Ranch's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. To help manage unanticipated liquidity needs, the Ranch has a committed line of credit totaling \$119,433, which was unused and available to draw upon as of December 31, 2018 (see Note 5). As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including equity securities, or to support organizational initiatives. The Ranch can liquidate its investments at any time, and therefore the investments are available to meet current cash flow needs. Additionally, the Ranch spends income from the endowment fund based on a spending rate up to 5% of the beginning-of-the-year balance of the endowment-invested funds for the previous year (drawn on an annual basis), as established by the Ranch's Board of Trustees, and has board-designated net asset reserve funds that could be available for current operations with Board approval, if necessary.

Continued

## ANDERSON RANCH ARTS FOUNDATION

### NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

#### 7. Net Assets

##### **Net Assets Without Donor Restrictions**

The Ranch's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts for a working capital reserve. As of December 31, 2018, the Ranch's net assets without donor restrictions were as follows:

Undesignated	\$ 5,420,980
Board-designated	<u>847,795</u>
Total Net Assets Without Donor Restrictions	<u>\$ 6,278,775</u>

Board-designated net assets consist of certain significant donor gifts restricted by the Board of Trustees to fund an operating reserve that is available to meet the Ranch's working capital requirements in a time of need, as well as to fund various strategic initiatives that are not included in the Ranch's normal operating budget.

##### **Net Assets With Donor Restrictions**

As of December 31, 2018, the Ranch's net assets with donor restrictions were available for the following programs or purposes:

Purpose restricted:	
Scholarships and internships	\$ 215,888
Advanced mentored study program	126,997
Time restricted:	
Time-restricted pledges	62,477
Available for appropriation from endowment funds	3,278
Permanent endowments:	
Corpus value and endowment pledges receivable	8,039,292
Deficit due to underwater endowment balances	<u>(634,088)</u>
Total Net Assets With Donor Restrictions	<u>\$ 7,813,844</u>

#### 8. Endowment Funds

The Ranch's endowment is composed of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

##### **Interpretation of Relevant Law**

The Ranch has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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



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For the Year Ended December 31, 2018**

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8. Endowment Funds (continued)

**Interpretation of Relevant Law (continued)**

result of this interpretation, the Ranch classifies as net assets with donor restrictions (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 as the original value of the permanent endowment is classified as net assets with donor restrictions as available for appropriation until those amounts are appropriated for expenditure by the Ranch in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Ranch 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 Ranch 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 Ranch.
7. The investment policies of the Ranch.

**Return Objectives and Risk Parameters**

To satisfy its long-term rate-of-return objectives, the Ranch 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).

**Strategies Employed for Achieving Objectives and Spending Policy**

The Ranch 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 Ranch must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in funds to achieve growth in principal value and income over time sufficient to preserve or increase the purchasing power of the funds, thus protecting the funds against inflation. Actual returns in any given year may vary. Income from the endowment fund is distributed based on a spending rate up to 5% of the average balance of the endowment-invested funds for the previous three years (drawn on an annual basis), as established by the Ranch's Board of Trustees. During the year ended December 31, 2018, the Ranch's Board of Trustees appropriated \$158,958 for operations.

**ANDERSON RANCH ARTS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2018**

8. Endowment Funds (continued)

**Funds with Deficiencies**

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 the Ranch to retain as a fund for perpetual duration. As of December 31, 2018, a cumulative deficiency of \$634,088 in various individual endowment funds was recorded as a component of net assets with donor restrictions. As of December 31, 2018, these endowments had an original gift value of \$7,117,810 and a fair value of \$6,483,722.

For the year ended December 31, 2018, the Ranch's endowment had the following activity:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year, as previously reported	\$ (262,308)	\$ 8,070,387	\$ 7,808,079
Prior period adjustment (see Note 1)	<u>262,308</u>	<u>(262,308)</u>	<u>-</u>
Endowment net assets, beginning of year, as restated	-	7,808,079	7,808,079
Investment return, net	-	(489,064)	(489,064)
Contributions	-	265,424	265,424
Loss on uncollectible pledges	-	(3,000)	(3,000)
Appropriations for expenditure	<u>-</u>	<u>(158,958)</u>	<u>(158,958)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 7,422,481</u>	<u>\$ 7,442,481</u>

The following reflects the Ranch's endowment net asset composition by fund type as of December 31, 2018:

Original donor-restricted gift amounts required to be maintained in perpetuity:

Scholarships	\$ 2,513,491
Residency	2,254,778
Ceramics programs and scholarships	708,023
General operating purposes	721,550
Photo digital programs	646,355
Woodworking scholarships	432,237
Painting	272,250
Visiting artist	200,000
Children's programs and scholarships	165,608
Sculpture programs	100,000
Library	<u>25,000</u>
Subtotal Original Gift Amounts	8,039,292

**ANDERSON RANCH ARTS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2018**

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8. Endowment Funds (continued)

The portion of perpetual endowment funds subject to a time restriction under UPMIFA:

With purpose restrictions	\$ 13,999
Without purpose restrictions	3,278
Underwater balances	<u>(634,088)</u>
Total Endowment Funds Classified as Net Assets with Donor Restrictions	<u>\$ 7,422,481</u>

9. Related Party Transactions

During the year ended December 31, 2018, the Ranch received \$1,055,036 in grants and contributions from 35 members of its Board of Trustees. Additionally, as of December 31, 2018, the Ranch was promised \$375,000 from seven members of its Board of Trustees.

10. Pension Plan

The Ranch sponsors a defined-contribution retirement plan (the Plan). Employees are generally eligible to participate in the Plan and can defer a portion of their pay, in accordance with the limits established by the Internal Revenue Code (the IRC). The Ranch can make contributions to the Plan at the discretion of its Board of Trustees. For the year ended December 31, 2018, the Ranch made \$51,104 in contributions to the Plan, which is included in personnel costs in the accompanying statement of functional expenses.

11. Income Taxes

The Ranch qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. There is no accrual for income tax expense, as the Ranch had no unrelated business income for the year ended December 31, 2018.

The Ranch has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. The Ranch has evaluated its uncertainty in income taxes for the year ended December 31, 2018, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2018, the statute of limitations for tax years 2014 through 2016 remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Ranch files tax returns. However, there are currently no examinations in progress. It is the Ranch's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

## ANDERSON RANCH ARTS FOUNDATION

### NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

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12. In-Kind Contributions

The Ranch receives various contributions of in-kind support, primarily consisting of professional services and supplies. In-kind contributions to the Ranch totaled \$110,962 for the year ended December 31, 2018, and are included in professional fees and donated goods and services on the accompanying statement of functional expenses.

13. Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 financial statement presentation.

14. Comparative Financial Statements

The accompanying statement of activities includes certain prior year summarized comparative information in total, but not by net asset class. Accordingly, such information should be read in conjunction with the Ranch's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

15. Subsequent Events

In preparing the financial statements, the Ranch has evaluated events and transactions for potential recognition or disclosure through March 20, 2019, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements, with the exception of the Executive Director's severance disclosed in Note 5.