

**MUSEUM ALLIANCE OF RAPID CITY, INC.**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2018 AND 2017**



**Ketel Thorstenson, LLP**  
Certified Public Accountants/Business & Personal Consultants

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**MUSEUM ALLIANCE OF RAPID CITY, INC.**

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## INDEPENDENT AUDITOR'S REPORT

To the Finance Committee  
Museum Alliance of Rapid City, Inc.  
Rapid City, South Dakota

We have audited the accompanying financial statements of **MUSEUM ALLIANCE OF RAPID CITY, INC.** (the Organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the statement of functional expenses for the year ended December 31, 2018.

### *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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 **MUSEUM ALLIANCE OF RAPID CITY, INC.** as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Museum Alliance of Rapid City, Inc.

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***Substantial Doubt about the Museum's Ability to Continue as a Going Concern***

The accompanying financial statements have been prepared assuming that the Museum will continue as a going concern. As discussed in Notes 4 and 5 to the financial statements, the Museum has utilized endowment principal for building maintenance needs and has no remaining unendowed funds available for operations. This raises substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plan regarding those matters also are described in Notes 4 and 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

***Effect of Adopting New Accounting Standard***

As discussed in Note 1 to the financial statements, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*, which was adopted by **MUSEUM ALLIANCE OF RAPID CITY, INC.** for the year ended December 31, 2018. The effects of implementing this standard include certain formatting and terminology changes, and the addition of a statement of functional expenses. In addition, expanded note disclosures for net assets classifications, functional allocation, underwater endowments, and liquidity and availability of resources are now included in the financial statements.



KETEL THORSTENSON, LLP  
Certified Public Accountants

September 12, 2019

**MUSEUM ALLIANCE OF RAPID CITY, INC.**

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2018 AND 2017**

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Accounts Receivable	\$ 30,784	\$ 3,783
Inventories	61,757	75,554
<b>Total Current Assets</b>	<b>92,541</b>	<b>79,337</b>
<b>Property and Equipment</b>		
Leasehold Improvements	528,713	528,713
Furniture, Fixtures and Equipment (Note 3)	409,881	350,555
	938,594	879,268
Less Accumulated Depreciation	829,308	803,044
	109,286	76,224
<b>Other Assets</b>		
Restricted Cash (Notes 4 and 5)	32,088	32,228
Restricted Investments (Notes 2, 4 and 5)	52,560	88,085
	84,648	120,313
<b>TOTAL ASSETS</b>	<b>\$ 286,475</b>	<b>\$ 275,874</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 10,755	\$ 34,931
Accrued Expenses	16,999	16,576
Current Portion of Capital Leases (Note 3)	6,370	-
<b>Total Current Liabilities</b>	<b>34,124</b>	<b>51,507</b>
Capital Leases, Net of Current Portion (Note 3)	18,617	-
<b>Commitments (Note 7)</b>		
<b>Net Assets</b>		
Without Donor Restrictions	149,086	81,090
With Donor Restrictions (Note 4):		
Outreach to the Stars Vehicle	3,240	3,240
Endowment Net Investment Return (Note 5)	-	32,899
Restricted by Perpetuity (Note 5)	81,408	107,138
<b>Total Net Assets with Donor Restrictions</b>	<b>84,648</b>	<b>143,277</b>
<b>Total Net Assets</b>	<b>233,734</b>	<b>224,367</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 286,475</b>	<b>\$ 275,874</b>

The accompanying notes are an integral part of these statements.

## MUSEUM ALLIANCE OF RAPID CITY, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>Revenue and Support:</i>			
City Appropriations (Note 6)	\$ 331,500	\$ -	\$ 331,500
Admissions, Memberships, and Events	195,865	-	195,865
Contributions	87,530	-	87,530
Store Revenue, Net of Cost of Goods			
Sold of \$78,556	63,651	-	63,651
Facility Rental Income	50,308	-	50,308
Other Income	567	-	567
Net Investment Return (Note 5)	-	(8,415)	(8,415)
Net Assets Released from Restrictions	50,214	(50,214)	-
<b>Total Revenue and Support</b>	<b>779,635</b>	<b>(58,629)</b>	<b>721,006</b>
<b>Expenses:</b>			
<i>Program Expenses:</i>			
Education and Visitor Services	530,787	-	530,787
<i>Support Expenses:</i>			
Management and General	172,940	-	172,940
Fundraising	7,912	-	7,912
<b>Total Expenses</b>	<b>711,639</b>	<b>-</b>	<b>711,639</b>
<b>Change in Net Assets</b>	<b>67,996</b>	<b>(58,629)</b>	<b>9,367</b>
Net Assets, Beginning of Year	81,090	143,277	224,367
<b>Net Assets, End of Year</b>	<b>\$ 149,086</b>	<b>\$ 84,648</b>	<b>\$ 233,734</b>

The accompanying notes are an integral part of this statement.

MUSEUM ALLIANCE OF RAPID CITY, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>Revenue and Support:</i>			
City Appropriations (Note 6)	\$ 331,500	\$ -	\$ 331,500
Admissions, Memberships, and Events	190,269	-	190,269
Contributions	85,943	-	85,943
Store Revenue, Net of Cost of Goods			
Sold of \$92,294	60,627	-	60,627
Facility Rental Income	34,391	-	34,391
Other Income	352	-	352
Net Investment Return (Note 5)	183	12,118	12,301
<b>Total Revenue and Support</b>	<b>703,265</b>	<b>12,118</b>	<b>715,383</b>
<b>Expenses:</b>			
<i>Program Expenses:</i>			
Education and Visitor Services	580,965	-	580,965
<i>Support Expenses:</i>			
Management and General	159,265	-	159,265
Fundraising	9,155	-	9,155
<b>Total Expenses</b>	<b>749,385</b>	<b>-</b>	<b>749,385</b>
<b>Change in Net Assets</b>	<b>(46,120)</b>	<b>12,118</b>	<b>(34,002)</b>
Net Assets, Beginning of Year	127,210	131,159	258,369
<b>Net Assets, End of Year</b>	<b>\$ 81,090</b>	<b>\$ 143,277</b>	<b>\$ 224,367</b>

The accompanying notes are an integral part of this statement.

MUSEUM ALLIANCE OF RAPID CITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
WITH COMPARATIVE TOTALS FOR 2017

	Program Services			Supporting Services		Total	Total
	Education and Visitor	Management and General	Fund Raising	2018	2017		
<b>Expenses</b>							
Salaries, Benefits and Taxes (Note 7)	\$ 268,938	\$ 126,760	\$ 6,325	\$ 402,023	\$ 408,266		
Utilities	93,254	7,018	130	100,402	122,710		
Cost of Sales	78,556	-	-	78,556	92,294		
Advertising	37,123	-	-	37,123	37,549		
Repairs and Maintenance	32,299	1,700	-	33,999	34,312		
Insurance	27,192	5,194	20	32,406	32,039		
Depreciation	24,950	1,313	-	26,263	15,163		
Supplies	11,035	7,283	882	19,200	19,563		
Event Food and Supplies	18,429	-	-	18,429	19,805		
Professional Fees	-	13,510	-	13,510	23,204		
Bank Fees	7,671	1,029	-	8,700	7,174		
Dues and Subscriptions	-	7,379	-	7,379	3,199		
Exhibition Costs	5,793	-	-	5,793	9,211		
Travel	1,988	-	351	2,339	1,844		
Security	1,293	68	-	1,361	1,602		
Postage and Printing	510	306	204	1,020	1,232		
Licenses and Permits	-	810	-	810	-		
Miscellaneous	-	570	-	570	1,720		
Interest	312	-	-	312	-		
Equipment Rent	-	-	-	-	10,792		
<b>Total Expenses</b>	<b>609,343</b>	<b>172,940</b>	<b>7,912</b>	<b>790,195</b>	<b>841,679</b>		
Less expenses net with revenues on the Statement of Activities	78,556	-	-	78,556	92,294		
<b>Total expenses reported on the Statement of Activities</b>	<b>\$ 530,787</b>	<b>\$ 172,940</b>	<b>\$ 7,912</b>	<b>\$ 711,639</b>	<b>\$ 749,385</b>		

The accompanying notes are an integral part of this financial statement.



## MUSEUM ALLIANCE OF RAPID CITY, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 9,367	\$ (34,002)
<i>Adjustments to Reconcile Change in Net Assets to Net Cash Flows Provided by (Used in) Operating Activities:</i>		
Depreciation	26,263	15,163
Realized/Unrealized (Gain) Loss on Investments	12,158	(8,998)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	(27,001)	575
Inventories	13,797	4,332
Prepays	-	1,725
Accounts Payable and Accrued Expenses	(23,753)	5,139
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>10,831</b>	<b>(16,066)</b>
<b>Cash Flows from Investing Activities</b>		
Redemption of Restricted Investments	23,367	11,984
Purchases of Property and Equipment	(26,325)	(17,398)
<b>Net Cash Flows Used in Investing Activities</b>	<b>(2,958)</b>	<b>(5,414)</b>
<b>Cash Flows from Financing Activities</b>		
Payments of Capital Lease Obligation	(8,013)	-
<b>Net Cash Flows Used in Financing Activities</b>	<b>(8,013)</b>	<b>-</b>
<b>Net Change in Restricted Cash</b>	<b>(140)</b>	<b>(21,480)</b>
<b>Restricted Cash -- Beginning of Year</b>	<b>32,228</b>	<b>53,708</b>
<b>Restricted Cash -- End of Year</b>	<b>\$ 32,088</b>	<b>\$ 32,228</b>
<b>Noncash Investing and Financing Transaction</b>		
Purchase of Equipment Under Capital Lease Obligation	\$ 33,000	\$ -
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest Paid	\$ 312	\$ -

The accompanying notes are an integral part of these statements.

**MUSEUM ALLIANCE OF RAPID CITY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**(1) Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Museum Alliance of Rapid City, Inc. (the Organization) was organized for the purpose of operating the Journey Museum located in Rapid City, South Dakota. The Journey Museum operates for the purpose of preserving the history of the City of Rapid City (the City) and surrounding areas. Collections held by the Museum are owned by private individuals and other organizations and are not reflected in the financial statements. The Organization is reported as a component unit of the City and is governed by a Board of Directors (the Board), which is partially composed of members appointed by the Mayor of the City.

The Organization receives a significant portion of its revenue through appropriations from the City (Note 6). The Organization also receives significant revenue from museum admissions, gift shop sales, rent, and contributions. This revenue is reported net of sales tax collected.

**Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of 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.

**Basis of Accounting and Financial Statement Presentation**

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. During 2018, the Organization adopted the provisions of Accounting Standards Update ("ASU") 2016-14: Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*, which improves the current net asset classification and the related information presented in the financial statements and notes about the Organization's liquidity, financial performance, and cash flows. This standard has been implemented retrospectively and resulted in terminology changes related to net asset classifications, the addition of a functional expense statement for 2018, and certain enhanced disclosures about the Organization's liquidity, underwater endowments, and functional allocations. Implementation did not change net assets balances. Accordingly, the accounts of the Organization are reported in the following net asset categories:

*Net Assets with Donor Restrictions* – The part of net assets of the Organization that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donor-imposed 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-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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 and are reported as reclassifications between the applicable classes of net assets. Amounts received with donor-imposed restrictions that are met in the same year the amounts are received are classified as net assets without donor restrictions.

*Net Assets without Donor Restrictions* – Net assets of the Organization that are not subject to donor-imposed restrictions and are available for general operations. Although they may in the future, the Board of Directors has not designated any net assets without donor restrictions for specific purposes.

**Cash and Cash Equivalents**

For financial statement purposes, the Organization considers all highly liquid investments with an original maturity of three months or less (including restricted cash) to be cash equivalents. The Organization maintains its cash accounts in financial institutions which are insured by the Federal Deposit Insurance Corporation.

**MUSEUM ALLIANCE OF RAPID CITY, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable**

Accounts receivable are recorded at the time services are rendered and are carried at their original amount less an estimate made for doubtful accounts, if necessary, based on a periodic review of all outstanding amounts. No allowance for doubtful accounts was deemed necessary at December 31, 2018 or 2017. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Trade receivables are considered past due if they exceed 90 days old; however, no interest is charged on delinquent balances. No significant past due receivables exist at December 31, 2018.

**Inventories**

Inventories are stated at the lower of cost (on a first-in, first-out basis) or net realizable value and consist of merchandise for resale in the gift shop. These items include books, souvenirs and artwork that are held for sale.

**Property and Equipment**

Property and equipment purchases in excess of \$500 are capitalized at cost. Donated property and equipment are recorded at fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

	<u>Years</u>
Leasehold Improvements	10
Furniture, Fixtures and Equipment	3-10

**Investments**

The Organization accounts for investments at fair market value, with changes in fair market value accounted for in the Statement of Activities as net investment return. Net investment return consists of realized and unrealized gains and losses, interest and dividend income, and external investment expenses. Realized gains and losses are determined on a specific identity basis. Management's policy is to credit (charge) all gains and losses against the two classes of net assets according to where the investment is being held. According to donor stipulation, investment income earned on donor-restricted investments is recorded as changes in net assets with donor restrictions until such time as the restriction is met.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment and the amounts reported.

**Support and Revenue Recognition**

Contributions, to include City appropriations, are recognized as increases in net assets with or without donor restrictions in the period in which cash, securities, other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Admissions and store revenue are recognized at the point-of-sale. Facility rental income is for specific events held at the Museum and is recognized at the time the event takes place.

**MUSEUM ALLIANCE OF RAPID CITY, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Summary of Significant Accounting Policies (Continued)**

**Functional Allocation of Expenses**

The costs of providing programs and supporting activities has been summarized on a functional basis in the Statements of Activities. The Statement of Functional Expenses presents the natural classification detail of expenses by function. Certain expenses can be directly charged to the function they benefit. Categories of expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Salaries and other employee driven expenses are allocated on estimates of time and effort based on time studies performed at least every other year. Facility related expenses are allocated to each function based on square footage utilized by the function.

**Advertising Costs**

The Museum uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. Total advertising costs for the years ended December 31, 2018 and 2017 are \$37,123 and \$37,549, respectively.

**Reclassifications**

Certain reclassification of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**Federal Income Tax**

The Organization qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income tax. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. At December 31, 2018, the Organization believes that no significant uncertain tax positions or liabilities exist.

The most significant tax positions of the Organization are its assertion that it is exempt from federal income taxes and its determination of whether any amounts are subject to unrelated business income tax (UBIT) based on a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. All significant tax positions have been considered by management, who has determined it is more likely than not that all tax positions would be sustained upon examination by taxing authorities. Accordingly, no provision for income taxes has been recorded.

**Emerging Accounting Standards**

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation for financial statements by reducing the number of requirements to which an entity must refer. The ASU outlines five steps to achieve proper revenue recognition: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies the performance obligation. This standard is effective for annual reporting periods beginning after December 15, 2018. The Organization will be evaluating the impact implementation will have on the financial statements.

**MUSEUM ALLIANCE OF RAPID CITY, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

**(1) Nature of Operations and Summary of Significant Accounting Policies (Concluded)**

**Summary of Significant Accounting Policies (Concluded)**

**Emerging Accounting Standards (Continued)**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. If the available accounting election is made, leases with a term of twelve months or less can be accounted for similar to existing guidance for operating leases. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. This determination is based on whether or not the resource provider is receiving commensurate value in return for resources transferred, and clarifies that executing the mission or providing societal benefit does not equate to commensurate value. The standard will also assist entities in determining whether a contribution is conditional on the basis of whether a barrier must be overcome and either a right of return of assets transferred or a right of release of the promisor from its obligation to transfer assets exists. The standard is effective for contributions received in annual periods beginning after December 15, 2018 and for contributions made in annual periods beginning after December 15, 2019. The Organization will be evaluating the impact this standard will have on the financial statements.

**Subsequent Events**

The Organization has evaluated subsequent events through September 12, 2019, the date which the financial statements were available to be issued.

**(2) Investments**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair market value is based on assumptions that market participants would use, including consideration of nonperformance risk.

The three-level hierarchy is defined as follows:

- Level One: Observable inputs such as quoted market prices for identical assets or liabilities in active markets. The types of assets and liabilities included in Level One are highly liquid and actively traded investments with quoted market prices.
- Level Two: Inputs include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The types of assets and liabilities included in Level Two are typically either comparable to actively traded securities or priced with models using observable inputs.
- Level Three: Inputs are based on prices or valuation techniques that are unobservable. The types of assets and liabilities included in Level Three require significant management judgment or estimation.

**MUSEUM ALLIANCE OF RAPID CITY, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

**(2) Investments (Continued)**

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

The following assets are measured at fair value on a recurring basis. No other assets or liabilities are measured at fair value on a recurring or nonrecurring basis.

December 31, 2018	Level <u>One</u>	Level <u>Two</u>	Level <u>Three</u>	<u>Total</u>
Mutual Funds	\$ 52,560	\$ -	\$ -	\$ 52,560
	<u>\$ 52,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,560</u>

December 31, 2017	Level <u>One</u>	Level <u>Two</u>	Level <u>Three</u>	<u>Total</u>
Mutual Funds	\$ 88,085	\$ -	\$ -	\$ 88,085
	<u>\$ 88,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,085</u>

**(3) Capital Lease**

The Organization leases a copier under a non-cancelable capital lease, secured by the copier with a cost of \$33,000 and accumulated depreciation of \$9,350 and \$-0- at December 31, 2018 and 2017, respectively. The lease bears interest at 4.99 percent with payments of \$623 due monthly, with the final payment due August 2022.

Future minimum lease payments under the terms of this lease are as follows:

2019	\$ 6,370
2020	6,692
2021	7,036
2022	4,889
	<u>\$ 24,987</u>

**(4) Net Assets with Donor Restrictions**

Restricted contributions and grants totaling \$-0- and \$11,800 were received and spent in accordance with donor restrictions during the years ended December 31, 2018 and 2017, respectively. Therefore, these contributions are presented as increases to net assets without donor restrictions on the Statement of Activities.

Net assets with donor restrictions include assets held in perpetuity, the income from which is restricted until the board appropriates the funds to be used for unrestricted purposes (Note 5). Net assets with donor restrictions are included in restricted cash and investments in the accompanying Statements of Financial Position. At December 31, 2018, the Organization has utilized restricted dollars to fund building maintenance, in lieu of borrowing. The total utilized, \$25,730, will be replenished in 2019.

Net assets were released from donor restrictions by Board appropriation of earnings from the assets held in perpetuity.

**MUSEUM ALLIANCE OF RAPID CITY, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

**(5) Endowment Funds**

The Organization's Endowment Fund includes amounts held in perpetuity, with earnings available to provide funding for operations.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (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 result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts 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 the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Changes in donor restricted endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment Net Assets - December 31, 2016	\$ -	\$ 127,919	\$ 127,919
Net Investment Return	-	12,118	12,118
Endowment Net Assets - December 31, 2017	-	140,037	140,037
Net Investment Loss	-	(8,415)	(8,415)
Appropriated for Expenditure	-	(50,214)	(50,214)
<b>Endowment Net Assets - December 31, 2018</b>	<b>\$ -</b>	<b>\$ 81,408</b>	<b>\$ 81,408</b>

Funds with Deficiencies

From time to time certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, the Organization had \$81,408 of the total \$107,138 invested, resulting in a deficiency of \$25,730 reported in net assets with donor restrictions. The remaining funds were used for building maintenance, which does not comply with the donor restrictions. Management does not anticipate any of the donors requiring return of the contribution, and accordingly, no provision has been made for any liability that might arise from this noncompliance. Furthermore, management has budgeted to make future deposits into the investment account as revenues exceed expenses, until the corpus is again whole.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable growth for its endowment. The Organization's endowment is invested in mutual funds and cash accounts. The current long-term return objective is to achieve a moderate rate of return. Actual returns in any given year may vary.

The Organization considers the following factors in determining whether to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Organization 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 the Organization;
- The investment policies of the Organization.

**MUSEUM ALLIANCE OF RAPID CITY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2018 AND 2017**

**(6) City Appropriations**

The Organization receives a significant portion of its revenue from the City. The City appropriated **\$331,500** for each of the years ended December 31, 2018 and 2017, for the payment of utilities and general operating expenses. The Organization's financial condition would likely be impaired if this appropriation was reduced or eliminated. The City agreement for appropriation expires in 2032, and amounts are to be determined annually through the City's budget process. Accounts receivable at December 31, 2018 includes the final payment for 2018 of \$25,631. For the year ended December 31, 2019, the appropriation decreased by approximately \$8,000 from the current year appropriation.

The Organization also has a rent-free lease agreement with the City for the land and building housing the museum operations. In return, the Organization has agreed to operate the museum for the benefit of the City. No contribution has been recorded in the accompanying financial statements for this lease agreement.

**(7) Retirement Plan**

The Organization has a Simple IRA retirement plan covering all employees who are employed for at least one year. The Organization matches up to three percent of employee contributions. The Organization's contributions to the plan totaled **\$6,186** and **\$5,986** for the years ended December 31, 2018 and 2017, respectively.

**(8) Liquidity, Availability of Financial Assets, and Continuing Operations**

The Organization's working capital and cash flows have seasonal variations during the year attributed to the tourism industry. To manage liquidity, the Organization's Board approved the use of restricted investments to cover unexpected building maintenance expenses (Notes 4 and 5), and relies on support from the City (Note 6). The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year of the Statement of Financial Position date because of donor-imposed restrictions.

	<b>2018</b>
Restricted Cash	\$ 32,088
Accounts Receivable	30,784
Restricted Investments	52,560
<b>Total Financial Assets</b>	<b>115,432</b>
Net Assets with Donor Restrictions - Outreach Vehicle	3,240
Endowment Held in Perpetuity	107,138
Financial assets available to meet cash needs for expenditures within one year	<b>\$ 5,054</b>

As discussed in Notes 4 and 5, the Organization's Board approved the use of restricted dollars to fund building maintenance at December 31, 2018, due to negative operating cash flows and reduced net assets without donor restriction. Management is continuing to find ways to increase visitor traffic in the Museum and reduce operating expenses. Management believes this, along with anticipated 2019 support of \$323,213 from the City, will allow replenishment of restricted dollars and positive cash flows from operations in 2019.