

**MUSEUM ALLIANCE OF RAPID CITY, INC.**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2019 AND 2018**



**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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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.

### ***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, 2019 and 2018, 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.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP".

KETEL THORSTENSON, LLP  
Certified Public Accountants

June 22, 2020

## MUSEUM ALLIANCE OF RAPID CITY, INC.

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 36,312	\$ 32,088
Accounts Receivable	59,331	30,784
Inventories	60,244	61,757
<b>Total Current Assets</b>	<b>155,887</b>	<b>124,629</b>
<b>Property and Equipment</b>		
Leasehold Improvements	528,713	528,713
Furniture, Fixtures and Equipment (Note 3)	437,303	409,881
	966,016	938,594
Less Accumulated Depreciation	854,958	829,308
	<b>111,058</b>	<b>109,286</b>
<b>Other Assets</b>		
Investments (Note 2)	121,587	52,560
	<b>121,587</b>	<b>52,560</b>
<b>TOTAL ASSETS</b>	<b>\$ 388,532</b>	<b>\$ 286,475</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 49,860	\$ 10,755
Accrued Expenses	20,050	16,999
Current Portion of Capital Leases (Note 3)	6,692	6,370
<b>Total Current Liabilities</b>	<b>76,602</b>	<b>34,124</b>
Capital Leases, Net of Current Portion (Note 3)	11,926	18,617
<b>Commitments (Note 7)</b>		
<b>Net Assets</b>		
Without Donor Restrictions	249,670	149,086
With Donor Restrictions (Note 4):		
Outreach to the Stars Vehicle	-	3,240
Exhibit	5,680	-
Restricted by Perpetuity (Note 5)	44,654	81,408
<b>Total Net Assets with Donor Restrictions</b>	<b>50,334</b>	<b>84,648</b>
<b>Total Net Assets</b>	<b>300,004</b>	<b>233,734</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 388,532</b>	<b>\$ 286,475</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, 2019**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>Revenue and Support:</i>			
City Funding (Note 6)	\$ 323,120	\$ -	\$ 323,120
Admissions, Memberships, and Events	206,459	-	206,459
Contributions	104,271	5,680	109,951
Store Revenue, Net of Cost of Goods			
Sold of \$72,609	45,624	-	45,624
Facility Rental Income	47,861	-	47,861
Other Income	794	-	794
Net Investment Return (Note 5)	24,411	2,544	26,955
Net Assets Released from Restrictions	42,538	(42,538)	-
<b>Total Revenue and Support</b>	<b>795,078</b>	<b>(34,314)</b>	<b>760,764</b>
<b>Expenses:</b>			
<i>Program Expenses:</i>			
Education and Visitor Services	544,928	-	544,928
<i>Support Expenses:</i>			
Management and General	140,767	-	140,767
Fundraising	8,799	-	8,799
<b>Total Expenses</b>	<b>694,494</b>	<b>-</b>	<b>694,494</b>
<b>Change in Net Assets</b>	<b>100,584</b>	<b>(34,314)</b>	<b>66,270</b>
Net Assets, Beginning of Year	149,086	84,648	233,734
<b>Net Assets, End of Year</b>	<b>\$ 249,670</b>	<b>\$ 50,334</b>	<b>\$ 300,004</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, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<i>Revenue and Support:</i>			
City Funding (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 FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Program Services</b>		<b>Supporting Services</b>		<b>Total</b>
	<b>Education and Visitor</b>	<b>Management and General</b>	<b>Fund Raising</b>		<b>2019</b>
<b>Expenses</b>					
Salaries, Benefits and Taxes (Note 7)	\$ 283,075	\$ 83,318	\$ 6,495	\$	372,888
Utilities	87,433	5,876	119		93,428
Cost of Sales	72,609	-	-		72,609
Repairs and Maintenance	42,253	2,224	-		44,477
Insurance	29,141	5,074	25		34,240
Advertising	33,106	-	-		33,106
Depreciation	24,368	1,282	-		25,650
Supplies	10,781	13,137	1,261		25,179
Event Food and Supplies	17,142	-	-		17,142
Professional Fees	-	14,026	-		14,026
Bank Fees	6,614	1,186	-		7,800
Miscellaneous	-	6,645	-		6,645
Exhibition Costs	5,492	-	-		5,492
Dues and Subscriptions	-	4,497	-		4,497
Travel	3,772	-	666		4,438
Equipment Lease	-	1,833	-		1,833
Interest	-	1,257	-		1,257
Security	1,168	62	-		1,230
Postage and Printing	583	350	233		1,166
Licenses and Permits	-	-	-		-
<b>Total Expenses</b>	<b>617,537</b>	<b>140,767</b>	<b>8,799</b>		<b>767,103</b>
Less expenses net with revenues on the Statement of Activities	72,609	-	-		72,609
<b>Total expenses reported on the Statement of Activities</b>	<b>\$ 544,928</b>	<b>\$ 140,767</b>	<b>\$ 8,799</b>	<b>\$</b>	<b>694,494</b>

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

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

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services			Supporting Services		Total
	Education and Visitor	Management and General	Fund Raising			2018
<b>Expenses</b>						
Salaries, Benefits and Taxes (Note 7)	\$ 268,938	\$ 126,760	\$ 6,325	\$	\$	402,023
Utilities	93,254	7,018	130			100,402
Cost of Sales	78,556	-	-			78,556
Repairs and Maintenance	32,299	1,700	-			33,999
Insurance	27,192	5,194	20			32,406
Advertising	37,123	-	-			37,123
Depreciation	24,950	1,313	-			26,263
Supplies	11,035	7,283	882			19,200
Event Food and Supplies	18,429	-	-			18,429
Professional Fees	-	13,510	-			13,510
Bank Fees	7,671	1,029	-			8,700
Miscellaneous	-	570	-			570
Exhibition Costs	5,793	-	-			5,793
Dues and Subscriptions	-	7,379	-			7,379
Travel	1,988	-	351			2,339
Equipment Lease	-	-	-			-
Interest	312	-	-			312
Security	1,293	68	-			1,361
Postage and Printing	510	306	204			1,020
Licenses and Permits	-	810	-			810
<b>Total Expenses</b>	<b>609,343</b>	<b>172,940</b>	<b>7,912</b>			<b>790,195</b>
Less expenses net with revenues on the Statement of Activities	78,556	-	-			78,556
<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>

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, 2019 AND 2018

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 66,270	\$ 9,367
<i>Adjustments to Reconcile Change in Net Assets to Net Cash Flows Provided by Operating Activities:</i>		
Depreciation	25,650	26,263
Realized/Unrealized (Gain) Loss on Investments	(28,258)	12,158
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>		
Accounts Receivable	(28,547)	(27,001)
Inventories	1,513	13,797
Accounts Payable and Accrued Expenses	42,156	(23,753)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>78,784</b>	<b>10,831</b>
<b>Cash Flows from Investing Activities</b>		
Redemption of Investments	-	23,367
Purchases of Investments	(40,769)	-
Purchases of Property and Equipment	(27,422)	(26,325)
<b>Net Cash Flows Used in Investing Activities</b>	<b>(68,191)</b>	<b>(2,958)</b>
<b>Cash Flows from Financing Activities</b>		
Payments of Capital Lease Obligation	(6,369)	(8,013)
<b>Net Cash Flows Used in Financing Activities</b>	<b>(6,369)</b>	<b>(8,013)</b>
<b>Net Change in Cash</b>	<b>4,224</b>	<b>(140)</b>
<b>Cash and Cash Equivalents-- Beginning of Year</b>	<b>32,088</b>	<b>32,228</b>
<b>Cash and Cash Equivalents-- End of Year</b>	<b>\$ 36,312</b>	<b>\$ 32,088</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	\$ 1,257	\$ 312

The accompanying notes are an integral part of these statements.

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

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**(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 (the 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. The number of Museum visitors is largely dependent on the health of the local tourism industry.

**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. 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 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 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, 2019 AND 2018**

**(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, 2019 or 2018. 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, 2019 or 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	3-15

**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 of cash and other assets are recognized as support in the period received at their fair values. Unconditional promises to give are recognized as assets and revenues in the period pledged. Contributions are distinguished between those that increase net assets with and without donor restriction. Conditional promises to give – that is those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

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

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

**Support and Revenue Recognition (Continued)**

The Organization receives City Funding in the form of subsidies and appropriations. Subsidies are received to support operations of the Organization. As the City requires no commensurate value in return for the funding, it is deemed to be a contribution. Appropriations cover the cost of utilities. As the building is owned by the City, this is deemed to be an exchange transaction, and revenue is recognized on the input method (i.e. as costs are incurred). For 2019 and 2018, respectively, subsidies totaled \$217,751 and \$194,640 and appropriations totaled \$105,369 and \$136,860.

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.

Visitors can purchase memberships to the museum where they can visit the museum an unlimited number of times and receive discounts at education forums and camps. Memberships begin on the date of purchase and are valid for one year. Revenue from memberships is recognized over time on the input method (i.e. as months pass) and total \$16,905 and \$16,875 for 2019 and 2018, respectively. Amounts paid in advance are not significant at December 31, 2019 or 2018.

Revenue is recognized net of sales tax collected.

**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 Statements of Functional Expenses present 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, 2019 and 2018 are \$33,106 and \$37,123, respectively.

**Federal Income Tax**

The Organization qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not considered to be a "private foundation" within the meaning of Section 509(a). As such, no federal income tax is paid unless net income is derived from activities that are unrelated to their exempt activities. No such significant activities are conducted. At December 31, 2019 and 2018, the Organization believes no material uncertain tax positions or liabilities, or interest and penalties associated with uncertain tax positions, exist.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

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

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

**Adopted Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which 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. The ASU is effective for years beginning after December 15, 2019; however, early implementation was elected. The Organization adopted the new guidance during the year ended December 31, 2019 using the modified retrospective method and, accordingly, the new guidance was applied to contracts not completed as of January 1, 2019 (the date of initial application). Adoption of this standard resulted in no changes to revenue recognition for contracts as the Organization's revenue recognition methods were materially consistent with the new guidance. Accounting policy changes are described above.

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 also assists 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 Organization adopted this standard during the year ended December 31, 2019 on a modified prospective basis for all agreements not completed as of December 31, 2018. No material impact to the financial statements occurred as a result of adoption. No adjustment to beginning net assets was made.

**Emerging Accounting Standard**

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, 2021, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on the financial statements.

**Subsequent Events**

The Organization has evaluated subsequent events through June 22, 2020, the date which the financial statements were available to be issued.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**(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.

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, 2019	Level <u>One</u>	Level <u>Two</u>	Level <u>Three</u>	<u>Total</u>
Mutual Funds	\$ 121,587	\$ -	\$ -	\$ 121,587
	<u>\$ 121,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,587</u>

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>

MUSEUM ALLIANCE OF RAPID CITY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018

**(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 \$15,950 and \$9,350 at December 31, 2019 and 2018, respectively. Interest related to the lease payments is not significant. 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:

2020	\$	6,692
2021		7,036
2022		4,890
	\$	<u>18,618</u>

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

Restricted contributions totaling \$5,680 and \$-0- were received during the years ended December 31, 2019 and 2018, respectively. The amount received in 2019 was restricted for the purpose of sponsoring an exhibit. At December 31, 2019, no funds were spent on the exhibit and as such the entire amount is restricted. Restricted funds for the Outreach to the Stars Vehicle at December 31, 2018 were spent in full in 2019.

**(5) Endowment Funds**

The Organization's endowment fund includes amounts held in perpetuity, with earnings to accumulate in the account until the Board appropriates them for use in operations.

The Board 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, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - December 31, 2017	\$ -	\$ 140,037	\$ 140,037
Net Investment Loss	-	(8,415)	(8,415)
Appropriated for Expenditure	-	(50,214)	(50,214)
Endowment Net Assets - December 31, 2018	-	81,408	81,408
Net Investment Gain	-	2,544	2,544
Released from Restriction - Change in Donor Intention, Net of Restoration of Underwater Funds	-	(39,298)	(39,298)
<b>Endowment Net Assets - December 31, 2019</b>	<b>\$ -</b>	<b>\$ 44,654</b>	<b>\$ 44,654</b>

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**(5) Endowment Funds (Continued)**

In 2018, the donor-restricted endowment fund had a deficiency of \$25,730 as the result of using restricted dollars for building maintenance, which did not comply with the donor restrictions. Although management interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures allowed under law, the funds were restored in 2019. In addition, funds were released to operations due to changes in donor intent.

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. 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.

**(6) City Funding**

The Organization receives a significant portion of its revenue from the City. The City provided **\$323,120** and **\$331,500** of funding for the years ended December 31, 2019 and 2018, respectively, for the payment of utilities and general operating expenses. The Organization's financial condition would likely be impaired if this funding was reduced or eliminated. The City agreement for funding expires in 2032, and amounts are to be determined annually through the City's budget process. Accounts receivable at December 31, 2019 and 2018 includes **\$41,862** and **\$25,361**, respectively, due from the City. The City has tentatively budgeted **\$291,926** in funding for 2020.

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 **\$4,999** and **\$6,186** for the years ended December 31, 2019 and 2018, respectively.

**(8) Liquidity and Subsequent Events**

The Organization's working capital and cash flows have seasonal variations during the year attributed to the tourism industry. Additionally, the Organization relies on support from the City (Note 6). The following reflects the Organization's financial assets as of December 31, 2019, reduced by amounts not available for general use within one year of the Statement of Financial Position date because of donor-imposed restrictions.



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

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2019 AND 2018**

**(8) Liquidity and Subsequent Events (Continued)**

	<u>2019</u>	<u>2018</u>
Cash	\$ 36,312	\$ 32,088
Accounts Receivable	59,331	30,784
Investments	121,587	52,560
<b>Total Financial Assets</b>	<b>217,230</b>	<b>115,432</b>
Net Assets with Donor Purpose Restrictions	5,680	3,240
Endowment Held in Perpetuity	44,654	107,138
<b>Financial assets available to meet cash needs for expenditures within one year</b>	<b>\$ 166,896</b>	<b>\$ 5,054</b>

Liquidity improved in 2019 with profitable operations due to increased admission rates, reduced operating expenses, and additional contributions without donor restrictions. Changes in donor intention also allowed the release of funds previously held in perpetuity (Note 5).

Management initially budgeted for positive operations in 2020 as they continued to find ways to increase visitor traffic in the Museum and reduce operating expenses. Management believed this, along with anticipated 2020 support of \$291,926 from the City, would provide positive cash flows from operations in 2020. However, subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Museum closed on March 21, 2020, and a reopening date has not yet been established. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. Because of these uncertainties a Payroll Protection Program (PPP) loan was obtained through a local financial institution for \$60,500. The loan requires monthly payments of \$3,405, including one percent interest, from November 2020 through April 2022, at which time the remaining balance is due in full. The loan is guaranteed by the SBA, so no additional collateral was required. Management intends to comply with all PPP regulations and request forgiveness of the loan in full prior to repayment being required. As of the date of issuance of these financial statements, the full impact to the Organization's financial position is not known.