RACINE ART MUSEUM ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

(With Summarized Totals for the Year Ended December 31, 2021)

RitzHolman CPAs

RACINE ART MUSEUM ASSOCIATION, INC.

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RitzHolman CPAs

Independent Auditor's Report

Board of Directors
Racine Art Museum Association, Inc.

Opinion

We have audited the accompanying financial statements of Racine Art Museum Association, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Racine Art Museum Association, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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Board of Directors
Racine Art Museum Association, Inc.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Racine Art Museum Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Racine Art Museum Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Racine Art Museum Association, Inc.'s December 31, 2021, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ritz Holman LLP

RITZ HOLMAN LLP
Certified Public Accountants

Milwaukee, Wisconsin
September 12, 2023

RACINE ART MUSEUM ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
(With Summarized Totals for December 31, 2021)

ASSETS

	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	$ 259,514	$ 220,345
Accounts Receivable	4,287	3,679
Grants Receivable	50,022	105,394
Pledges Receivable	200,264	171,240
Prepaid Expenses	21,511	26,165
Total Current Assets	$ 535,598	$ 526,823
INVESTMENTS		
Racine Community Foundation, Inc. - Beneficial Interest	$ 745,047	$ 901,839
Investments	6,455,248	7,420,418
Total Investments	$ 7,200,295	$ 8,322,257
FIXED ASSETS		
Building and Leasehold Improvements	$ 7,726,939	$ 7,668,316
Equipment	429,539	498,695
Vehicle	29,808	29,808
Website	43,237	31,937
Total Fixed Assets	$ 8,229,523	$ 8,228,756
Less: Accumulated Depreciation	(4,283,271)	(4,121,615)
Net Fixed Assets	$ 3,946,252	$ 4,107,141
LEASES		
Right-of-Use Asset - Operating Leases	$ 59,883	$ ---
Right-of-Use Asset - Finance Leases	9,538	---
Total Leases	$ 69,421	$ ---
OTHER ASSETS		
Inventory	$ 58,055	$ 60,111
Artwork Held for Resale	79,669	82,837
Total Long-Term Assets	$ 137,724	$ 142,948
TOTAL ASSETS	$ 11,889,290	$ 13,099,169

LIABILITIES AND NET ASSETS

	2022	2021
CURRENT LIABILITIES		
Accounts Payable	$ 39,860	$ 34,412
Accrued Payroll	46,297	19,959
Refundable Advances	74,497	7,893
Deposits Held	1,350	450
Gift Certificate Liability	3,899	4,382
Paycheck Protection Program Loan	---	235,415
Lease Liability - Current Portion for Operating Leases	40,544	---
Lease Liability - Current Portion for Finance Leases	10,469	9,960
Total Current Liabilities	$ 216,916	$ 312,471
LONG-TERM LIABILITIES		
Lease Liability - Long-Term Portion for Operating Leases	$ 20,538	$ ---
Lease Liability - Long-Term Portion for Finance Leases	904	11,372
Total Long-Term Liabilities	$ 21,442	$ 11,372
Total Liabilities	$ 238,358	$ 323,843
NET ASSETS		
Without Donor Restrictions		
Operating	$ 1,023,245	$ 595,712
Fixed Assets	3,946,252	4,107,141
Board Designated	996,926	1,066,451
Total Net Assets Without Donor Restrictions	$ 5,966,423	$ 5,769,304
With Donor Restrictions	5,684,509	7,006,022
Total Net Assets	$ 11,650,932	$ 12,775,326
TOTAL LIABILITIES AND NET ASSETS	$ 11,889,290	$ 13,099,169

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

RACINE ART MUSEUM ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Summarized Totals for the Year Ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
REVENUE				
Contributions	$ 425,147	$ 208,500	$ 633,647	$ 620,481
Donated Goods, Services and Facility Space	184,760	---	184,760	184,760
City of Racine Contribution	347,135	---	347,135	341,530
Tuition	78,156	---	78,156	62,628
Admission and Exhibition Revenue	21,936	---	21,936	21,563
Membership Dues	72,140	---	72,140	75,016
Paycheck Protection Program	235,415	---	235,415	237,412
Employee Retention Credit	---	50,022	50,022	---
Dividends, Interest, and Capital Gain Distributions	366,297	---	366,297	356,411
Rental Income	800	---	800	1,550
Auxiliary Activities	112,816	---	112,816	108,812
Change in Value of Artwork Held for Resale	3,000	---	3,000	14,900
Special Events				
Revenues	114,271	---	114,271	78,003
Expenses	(50,053)	---	(50,053)	(19,900)
Artwork Selection, Curation, and Purchase Services	355	---	355	---
Other Revenues	9,789	---	9,789	1,615
Net Assets Released from Restrictions - Operations	397,484	(397,484)	---	---
Total Revenue	$ 2,319,448	$ (138,962)	$ 2,180,486	$ 2,084,781
EXPENSES				
Program Services				
Education	$ 428,030	$ ---	$ 428,030	$ 361,438
Exhibition	1,028,057	---	1,028,057	870,512
Auxiliary Activities	318,257	---	318,257	306,898
Management	356,738	---	356,738	346,768
Fundraising	254,511	---	254,511	264,396
Total Expenses	$ 2,385,593	$ ---	$ 2,385,593	$ 2,150,012
CHANGE IN NET ASSETS FROM OPERATIONS	$ (66,145)	$ (138,962)	$ (205,107)	$ (65,231)
OTHER CHANGES				
Collection Items Purchased but not Capitalized	$ (19,784)	$ ---	$ (19,784)	$ (2,621)
Realized and Unrealized Change in Value of Investments	(491,266)	(408,237)	(899,503)	779,781
Net Assets Released from Restrictions Endowment	774,314	(774,314)	---	---
Total Other Changes	$ 263,264	$ (1,182,551)	$ (919,287)	$ 777,160
CHANGE IN NET ASSETS	$ 197,119	$ (1,321,513)	$ (1,124,394)	$ 711,929
NET ASSETS, BEGINNING OF YEAR	5,769,304	7,006,022	12,775,326	12,063,397
NET ASSETS, END OF YEAR	$ 5,966,423	$ 5,684,509	$ 11,650,932	$ 12,775,326

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

RACINE ART MUSEUM ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Summarized Totals for the Year Ended December 31, 2021)

	Program Services						
	Education	Exhibition	Auxiliary Activities	Management	Fundraising	2022 Total	2021 Total
Salaries and Wages	$ 220,736	$ 413,464	$ 99,226	$ 168,155	$ 192,357	$ 1,093,938	$ 1,013,188
Retirement	8,985	26,656	5,696	10,572	12,879	64,788	56,778
Employee Benefits	20,711	51,920	7,733	1,205	12,511	94,080	64,938
Payroll Taxes	16,297	30,437	7,309	20,384	14,170	88,597	81,021
Professional Fees	---	---	---	43,969	---	43,969	42,016
Information Technology	7,961	---	5,222	13,002	---	26,185	51,492
Grant Expenditures	511	---	---	---	---	511	127
Supplies	---	---	31	9,026	---	9,057	8,143
Materials	15,389	11,376	2,997	---	---	29,762	17,638
Postage and Art Shipping	---	5,043	2,496	3,746	---	11,285	5,593
Subscriptions	---	---	---	2,440	175	2,615	2,102
Occupancy	85,950	159,230	4,287	---	---	249,467	241,201
Utilities	12,972	44,796	16,394	5,545	1,640	81,347	59,845
Telephone	456	---	2,065	6,807	---	9,328	7,076
Equipment Rental and Maintenance	583	---	560	6,908	---	8,051	9,829
Building Maintenance	6,710	33,204	13,655	5,232	1,387	60,188	34,515
Interest Expense	---	---	---	840	---	840	797
Depreciation	15,064	124,950	56,654	19,683	5,821	222,172	218,097
Grounds Maintenance	136	1,131	33,766	178	53	35,264	42,093
Travel and Entertainment	320	3,559	151	468	49	4,547	2,620
Conferences, Conventions and Meetings	955	44	---	---	---	999	242
Staff Development	---	---	---	---	---	---	---
Insurance	---	16,332	---	27,016	---	43,348	40,904
Membership Dues	---	---	2,684	1,679	---	4,363	1,780
Promotion	6,470	58,647	4,020	---	13,469	82,606	74,569
Cost of Sales	---	4,906	47,683	---	---	52,589	52,419
Bank Fees	---	---	4,127	8,760	---	12,887	10,650
Programming Expense	7,824	37,003	---	---	---	44,827	7,189
Permanent Collection Conservation	---	5,359	---	---	---	5,359	2,391
Artwork Purchases for Others	---	---	355	---	---	355	---
Other Expense	---	---	1,146	1,123	---	2,269	759
Subtotal	$ 428,030	$ 1,028,057	$ 318,257	$ 356,738	$ 254,511	$ 2,385,593	$ 2,150,012
Special Event Expenses							
Contract Services and Artists	$ ---	$ ---	$ ---	$ ---	$ 7,498	$ 7,498	$ 18,104
Food and Venue	---	---	---	---	19,287	19,287	---
Promotion	---	---	---	---	7,422	7,422	---
Supplies	---	---	---	---	13,339	13,339	---
Miscellaneous	---	---	---	---	2,507	2,507	1,796
Total Special Events	$ ---	$ ---	$ ---	$ ---	$ 50,053	$ 50,053	$ 19,900
TOTAL EXPENSES	$ 428,030	$ 1,028,057	$ 318,257	$ 356,738	$ 304,564	$ 2,435,646	$ 2,169,912

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

RACINE ART MUSEUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Summarized Totals for the Year Ended December 31, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (1,124,394)	$ 711,929
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Unrealized and Realized (Gain) Loss on Investments	899,503	(781,761)
Donated Stock	(175,600)	(5,036)
Depreciation	222,172	218,097
Paycheck Protection Program Loan Forgiveness	(235,415)	(235,400)
(Increase) Decrease in Accounts Receivable	(608)	2,442
(Increase) Decrease in Grants Receivable	55,372	(98,244)
(Increase) Decrease in Pledges Receivable	(29,024)	109,300
(Increase) Decrease in Prepaid Expenses	4,654	(2,930)
(Increase) Decrease in Inventory	2,056	11,690
(Increase) Decrease in Artwork Held for Resale	3,168	(6,995)
(Increase) Decrease in Right-of-Use Operating Lease Asset	40,543	---
Increase (Decrease) in Right-of-Use Operating Lease Liability	(39,344)	---
Increase (Decrease) in Accounts Payable	5,448	(19,991)
Increase (Decrease) in Accrued Payroll	26,338	5,635
Increase (Decrease) in Refundable Advances	66,604	1,884
Increase (Decrease) in Deposits Held	900	(900)
Increase (Decrease) in Gift Certificate Liability	(483)	1,352
Net Cash Used by Operating Activities	$ (278,110)	$ (88,928)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	$ (70,821)	$ (2,668)
Purchase of Investments	(1,755,575)	(551,905)
Proceeds from Sale of Investments	2,153,634	282,190
Net Cash Provided (Used) by Investing Activities	$ 327,238	$ (272,383)
CASH FLOWS FROM FINANCING ACTIVITIES		
Paycheck Protection Program Loan Proceeds	$ ---	$ 235,415
Payments on Finance Lease	(9,959)	(9,475)
Net Cash (Used) Provided by Financing Activities	$ (9,959)	$ 225,940
Net Increase (Decrease) in Cash and Cash Equivalents	$ 39,169	$ (135,371)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	220,345	355,716
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 259,514	$ 220,345
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	$ 840	$ 1,325

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

RACINE ART MUSEUM ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022

NOTE A - Summary of Significant Accounting Policies

Association

Racine Art Museum Association, Inc. (the “Association”) is operated exclusively for charitable and educational or scientific purposes as a not-for-profit organization. Racine Art Museum Association, Inc. is dedicated to the exhibition, collection, preservation, and education in contemporary visual arts.

In 2002, Wustum Museum Art Association, Inc. changed its name to Racine Art Museum Association, Inc. The Association was incorporated in 1939 in the State of Wisconsin to foster and aid in the development of public art galleries and museums and programs of education.

Accounting Method

The financial statements of the Association have been prepared on the accrual basis of accounting.

Basis of Presentation

The Association reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with maturities of three months or less at purchase. Cash and cash equivalents excludes amounts that are held in the investment accounts or in funds held with the Racine Community Foundation, Inc.

Accounts and Grants Receivable

Accounts and grants receivable consist of store sales, grants, and other miscellaneous receivables of which all are considered fully collectible, therefore, no allowance for doubtful accounts is considered necessary.

Pledges Receivable

Pledges receivable includes unconditional promises for donations expected to be received in future periods. Pledge balances are included in net assets with donor restrictions unless the donor has directed that the funds are for a period or purpose in which the restriction is already met. All pledges are considered fully collectible, therefore, no allowance for doubtful accounts is considered necessary. Pledges expected to be collected in more than one year from the statement of financial position date are discounted for present value when significant.

Communications indicating that the Association has been included in an individual’s will as a beneficiary are considered intentions to give and not considered unconditional due to an individual’s ability to modify the will. Intentions to give are not included in pledges receivable. When the Association is notified that it is expected to receive a payment as a beneficiary of a settled estate, a pledge receivable at fair value is recorded.

Prepaid Expenses

Prepaid expenses include payments made in advance of the future performance of services, receipt of goods or incurrence of expenses. Expenses for future events are included in prepaid expenses until the event occurs.

NOTE A - Summary of Significant Accounting Policies (continued)

Fixed Assets
Fixed assets are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

Inventory
Inventory consists of merchandise sold at the gift shop in the Association's downtown Racine location. It is stated at the lower of cost or market, with cost determined using the first-in first-out method.

Artwork Held for Resale
Artwork held for resale consists of artwork that has been donated specifically for the purpose of being sold to raise funds to support the Association. Such assets are recorded as assets at estimated net realizable value at the date of the donation.

Permanent Collection
In accordance with policies generally followed by museums, objects of art that are accessioned into the museum's permanent collection have been excluded from the statement of financial position.

The Association's collections management policy requires that the proceeds from sales of any artworks deaccessioned from the permanent collection be used to acquire other items for the collection or care of the collection. New proceeds received from the sale of general gifts of objects offered to the collection, but which are not accessioned, shall also be used either for the purpose of acquiring additional items for the collection, or the care, conservation, and preservation of those items already in the Association's collection. The Association's permanent collection consists primarily of artwork of the highest quality by American artists with regional, national and international reputations, concentrating on ceramics, fibers, glass, metals, plastics, wood, artists' books, and works on paper. Collection items are protected, kept unencumbered, cared for and preserved.

Contributions and Grant Revenue
Contributions and unconditional promises to give received by the Association are measured at fair value and are reported as increases in net assets. Contributions are considered available for the Association's general operations and included in net assets without donor restrictions unless specifically restricted by a donor. A restricted contribution is reported in revenue and net assets without donor restrictions when the restriction is met within the same reporting period as the contribution is received. Contributions received restricted for a purpose not yet met or to support a future period are included in net assets with donor restrictions. When a donor restriction from a prior year expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Conditional contributions are not recognized as revenue until they become unconditional. A conditional contribution is one that has both a barrier that must be overcome and an agreement requiring advance payment to be returned or future payment not to be obligated if the barrier is not overcome.

NOTE A - Summary of Significant Accounting Policies (continued)

Contributions and Grant Revenue (continued)

Net assets restricted for acquisition of building or equipment are reported as net assets with donor restrictions until the specified asset is placed in service when the net assets are released to net assets without donor restrictions.

When an endowment donation is received, the original gift and any earnings thereupon are reported in net assets with donor restrictions until appropriated for the designated time or use. At that time, the net assets are released to net assets without donor restrictions.

Contributions of donated goods and services, excluding permanent collection, are recorded at the estimated fair value at the date of the donation. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association. Accordingly, the value of contributed time that does not meet these requirements has not been determined and is not reflected in the accompanying financial statements. It is the Association's practice to cash out donated stock upon receipt and record the contribution at the fair value received.

Advertising

The Association uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as the advertising occurs, regardless of future benefit. Advertising expense for the year ended December 31, 2022, was $82,606.

Functional Expenses

The Association charges expenses directly to program, management, or fundraising when possible. Certain expenses are attributable to one or more programs or supporting functions of the Association. Those expenses include depreciation and facilities overhead which are allocated based on square footage; salaries, health and life insurance, and retirement expenses which are allocated based on estimates of time and effort within each program or supporting function.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE A - Summary of Significant Accounting Policies (continued)

Leases

The Organization recognizes operating and finance leases in accordance with the *FASB Accounting Standards Codification* (ASC) 842. A lease exists when an organization has the right to control the use of property, plant or equipment over a lease term. The lessee classifies a lease as either a finance or operating lease. The accounting of a finance lease is similar to when an asset is purchased. An operating lease is when the right-of-use of an asset exists over the lease-term, but that the lease doesn't meet the definition of a finance lease. The Organization has elected to establish a threshold to exclude lease assets and obligations that are immaterial to the financial statements. The Organization recognizes individual lease $5,000.

The Organization has elected not to apply the recognition requirements in ASC 842 to short-term leases (those with a term of 12 or less months) and no expected purchase at the end of the term. The Organization has elected to use the risk free interest rate as a practical expedient on operating leases for building. The implicit rate is used for equipment under finance lease.

NOTE B - Accounting Standard Changes and Future Accounting Pronouncement

Accounting Standards Changes

The Organization's financial statements include implementation of the following accounting standards updates:

Accounting Standards Update 2020-07, Not-for-Profit entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This update requires contributed nonfinancial assets to be reported as a separate line in the statement of activities. A financial statement note is required to provide disaggregated contributed nonfinancial assets by category including: the type of contributed nonfinancial asset; qualitative information about the monetization or utilization of the nonfinancial assets; the policy about the monetization or utilization of nonfinancial assets; a description of restrictions, valuation, and the market used to determine the fair value. The amendments in this update are applied on a retrospective basis. The implementation of this standard has not materially affected the financial statements of the Organization.

Accounting Standards Update 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs. This update clarifies that an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-32-33 for each reporting period. This amendment impacts the effective yield of an existing individual callable debt security. Amendments in this update are applied on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities. The implementation of this standard has not materially affected the financial statements of the Organization.

NOTE B - Accounting Standard Changes and Future Accounting Pronouncement (continued)

Accounting Standards Changes (continued)
Accounting Standards Update 2016-02, *Leases (Topic 842), which supersedes existing guidance in Topic 840, Leases*. The FASB subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; ASU 2019-01, *Leases (Topic 842): Codification Improvements*; ASU 2020-05, Leases (Topic 842): *Lessors—Certain Leases with Variable Lease Payments*; and ASU 2021-09, Leases (Topic 842): *Discount Rate for Lessees That Are Not Public Business Entities*. Topic 842 amends both lessor and lessee accounting with the most significant change being the requirement for lessees to recognize right-to-use (ROU) assets and lease liabilities on the statement of financial position for operating leases.

The Organization adopted the leasing standards effective January 1, 2022, using the modified respective approach with January 1, 2022, as the initial date of application. Using this method, a cumulative-effect adjustment to net assets is recognized in the period of adoption. The Organization elected to use all available practical expedients provided in the transition guidance. These allowed the Organization to not reassess the identification, classification and initial direct costs of lessor agreements and to use hindsight in lessee and lessor agreements for determining lease term and right-of-use asset impairment. The adoption had a material impact on the Organization’s statement of financial position but did not have a material impact on the statement of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. The accounting for finance leases remained substantially unchanged.

Future Accounting Pronouncement
Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326) will be effective for fiscal years beginning after December 15, 2022. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current generally accepted accounting principles with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, including exploring more forward-looking alternatives.

NOTE C - Change in Accounting Principles

The adoption of Topic 842 had a material impact on the Organization's statement of financial position but did not have a material impact on the statement of activities. The most significant impact was the recognition of right-of-use operating lease assets of $100,426 and operating lease liabilities of $100,426. Adoption of the new standard had no impact to the Organization's change in net assets and had no impact on cash flows.

The following details the statement of financial position line items effected as of January 1, 2022:

	As Reported Under 840	As Reported Under 842	Effect of Change
Assets			
Right-of-Use Asset - Operating Leases	$ ---	$100,426	$100,426
Right-of-Use Asset - Finance Leases	---	19,077	19,077
Fixed Assets, Net of Depreciation	19,077	---	(19,077)
Liabilities			
Lease Liability - Operating Lease	$ ---	$100,426	$100,426
Lease Liability - Finance Leases	---	21,332	21,332
Lease Liability - Capital Leases	21,332	---	(21,332)

NOTE D - Comparative Financial Information

The financial information shown for 2021 in the accompanying financial statements is included to provide a basis for comparison with 2022. The comparative information is summarized by total only, not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity to generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

NOTE E - Liquidity

The Association's operations are primarily funded through donations, program revenue, and endowment distributions. Liquid financial assets are those financial assets available within one year of the statement of financial position date to meet the cash needs of the Association for general operations or to pay obligations as they become due. Liquid financial assets exclude amounts subject to donor or other contractual restrictions that make them unavailable for general expenditures. In addition to the financial assets below, the Association appropriates funds from the endowment to support operations. The endowment that is board designated to support operations is $996,926 as of December 31, 2022. The endowment that is donor restricted, but for which earning support operations, is $4,890,623 as of December 31, 2022.

Financial assets available for use consist of the following:

Description	Amount
Cash and Cash Equivalents	$ 259,514
Operating Funds Held in Investments	1,008,130
Accounts Receivable	4,287
Grants Receivable	50,022
Pledges Receivable	200,264
Financial Assets with Purpose Restrictions	(189,248)
Financial Assets Available for Use	$1,332,969

NOTE F - Pledges Receivable

The Association records a pledges receivable when a donor makes an unconditional promise to give. Pledge balances are included in net assets with donor restrictions until collected, unless otherwise specified by the donor. Contributions expected to be received in more than one year from the statement of financial position date are discounted for risk and present value of money when significant.

The Association expects to collect all pledges receivable of $200,264 in the year ended December 31, 2023.

NOTE G - Endowment, Investments, and Beneficial Interest

Endowment

The Association's endowment consists of funds established to support the operations of the Association. It consists of both donor-restricted endowment funds and funds designated by the board of directors (the "Board") to function as an endowment. These endowment funds have been invested in funds through an investment management company and through the Racine Community Foundation, Inc. (the "Beneficial Interest"). As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association also has a collection acquisition endowment consisting of funds to support its permanent collections. This endowment consists of financial contributions or proceeds from deaccessioned collections sold. Financial contributions restricted by the donor may be used to support the costs of direct care of existing artwork in the permanent collection or for the purchase of artwork to be added to the collection. Fund earnings are also restricted to support the costs of direct care of artworks or purchase of collection artwork. Financial contributions may also be restricted by the donor solely for the purchase of artwork for the collection.

Interpretation of Relevant Law

UPMIFA requires the historical dollar amount of the original gift to be preserved. 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). The Board of the Association has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. Net assets are released from restrictions when appropriated by the board of directors.

Investment Policy

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowment. The endowment assets are invested in a manner that is intended to generate annual income for the operation of the Racine Art Museum Association, Inc., preservation of capital, and to preserve and grow the principal investment.

The Association relies on a total return strategy in which the investment returns are achieved through capital appreciation and current yield (interest and dividends). The Association targets a diversified asset allocation to achieve its long-term objectives with prudent risk constraints. The specific investment objective of the Association is to attain a real total return (net of investment management fees) that meets or exceeds the composite performance of the relevant security markets on an annualized basis of three to five years.

NOTE G - Endowment, Investments, and Beneficial Interest (continued)

Policy for Appropriation of Funds
The Association uses the policy summarized below for appropriating distributions each year in accordance with either the donor's will or in absence of such, board's decision. In establishing this policy, the Association considered the long-term expected returns on its endowment's investments.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The donor's will
2. The duration and preservation of the fund
3. The purpose of the Association and the donor-restricted endowment fund
4. General economic conditions
5. The possible effect of inflation and deflation
6. The expected total return from income and the appreciation of investments
7. Other resources of the Association
8. The investment policies of the Association

Endowment Net Asset Classification
The Racine Art Museum Association, Inc. pools its endowment between funds invested through an investment management company and through its beneficial interest at the Racine Community Foundation, Inc. (the "Combined Endowment Funds"). The Racine Community Foundation, Inc. maintains variance power over the endowment funds it holds and determines an annual appropriation of funds that will be granted to the Association for spending. The Racine Community Foundation Inc.'s intent is to annually distribute 5% of the average of the last twelve quarters of the market value of the Association's Fund for use as its Board shall determine.

Investments consist of net assets with the following composition as of December 31, 2022:

	Total
Board Designated Endowment	$ 996,926
Endowment with Donor Restrictions	5,195,239
Subtotal - Endowment	$ 6,192,165
Operating Funds	1,008,130
Total Investments	$ 7,200,295

NOTE G - Endowment, Investments, and Beneficial Interest (continued)

Endowment net asset composition is as follows as of December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Held in Investments			
Board Designated Endowment	$ 996,926	$ ---	$ 996,926
Original Donor Gifts for Endowment			
To be Maintained in Perpetuity			
Empowerment Endowment	---	4,640,426	4,640,426
Opportunity Knocks Endowment	---	418,258	418,258
Savage Endowment	---	50,000	50,000
Collection Acquisition Gifts	---	253,605	253,605
General Endowment	---	1,000,000	1,000,000
Earmarked Gifts	---	1,011	1,011
Subtotal	$ 996,926	$ 6,363,300	$ 7,360,226
Accumulated Investment Loss	---	(1,168,061)	(1,168,061)
Total Endowment	$ 996,926	$ 5,195,239	$ 6,192,165

Change in endowment net assets are as follows in the year ended December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets			
Beginning of the Year	$ 1,066,451	$ 6,377,790	$ 7,444,241
Contributions	276	---	276
Investment Return, Net	(68,325)	(408,237)	(476,562)
Appropriated for Expenditure			
Withdrawals	---	(764,356)	(764,356)
Permanent Collection	(1,476)	(9,958)	(11,434)
Total Endowment	$ 996,926	$ 5,195,239	$ 6,192,165

Fair Value of Investments

The Association has adopted the Financial Accounting Standards Board guidance on fair value measurements. A three-tier hierarchy is used to maximize the use of observable market data inputs and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are based primarily on valuation models with significant unobservable pricing inputs and which result in the use of management estimates.

NOTE G - Endowment, Investments, and Beneficial Interest (continued)

The following table sets forth by level, within the fair value hierarchy, the Association's investments and beneficial interest as of December 31, 2022:

Investment Category	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Stocks	$6,119,662	$6,119,662	$ ---	$ ---
Fixed Income	141,409	141,409	---	---
Cash and Money Market	194,177	194,177	---	---
Beneficial Interest	745,047	---	---	745,047
Total	$7,200,295	$6,455,248	$ ---	$745,047

Beneficial Interest in a Perpetual Trust

In 2002, the Association established the Racine Art Museum Association, Inc. Fund ("Beneficial Interest") within the Racine Community Foundation, Inc. The fund's fair market value was $745,047 at December 31, 2022. Distributions from the fund are in accordance with the Racine Community Foundation, Inc.'s distribution policies. In the event of emergency or extraordinary circumstances upon recommendation of 75% of the Association's board and approval of the Racine Community Foundation, Inc., the Association may make withdrawals from principal. Beneficial interest includes equities securities, fixed income securities, and limited partnerships.

Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs include the following:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Beneficial Interest
Beginning Balance, January 1, 2022	$901,839
Unrealized Loss	(143,641)
Realized Gain	20,495
Interest Income	11,756
Administrative Fee	(8,546)
Grants	(36,856)
Ending Balance, December 31, 2022	$745,047

NOTE H - Leasing Activities

Finance Leases
The Association has a finance lease for a copy machine which requires monthly payments of $900 through January 2024.

Operating Leases
The Association has an operating lease for warehouse space at 2824 Four Mile Road in Caledonia, Wisconsin. The lease term extends through June 30, 2024, and is not expected to be renewed thereafter.

The Organization used the implicit interest rate for equipment under operating leases.
The Organization used the risk free interest rate for buildings under operating leases.

Lease expense, cash flows and weighted average information pertaining to leases are as follows for the year ended December 31, 2022:

	Amount
Operating Lease Cost - Rent	$39,047
Operating Lease Cost - CAM	$9,064
Finance Lease Costs:	
Amortization of Lease Assets	$9,538
Interest on Lease Liabilities	$840
Operating Cash Flows from Operating Leases	$40,724
Operating Cash Flows from Finance Leases	$840
Financing Cash Flows from Finance Leases	$9,959
Weighted-Average Remaining Lease Term in Years for Operating Leases	1.74 years
Weighted-Average Discount Rate for Operating Leases	1.7%
Weighted-Average Remaining Lease Term in Years for Finance Leases	1.08 years
Weighted-Average Discount Rate for Finance Leases	5.0%

The maturities of lease liabilities as of December 31, 2022, were as follows:

Year Ending	Operating	Finance
December 31, 2023	$41,226	$10,800
December 31, 2024	20,613	908
Total Lease payments	$61,839	$11,708
Less: Present Value Discount	(757)	(335)
Present Value of Lease Liabilities	$61,082	$11,373

NOTE H - Leasing Activities (continued)

Othering Leasing Activity

The Association entered into a finance lease for a copier in June 2023 which will require 63 monthly payments of $1,398.

The Association entered into an operating lease for building space in June 2023 which will require initial monthly payments of $4,913, increasing incrementally through the initial lease term ending May 31, 2028. The Association has the ability to renew the lease for an additional five years thereafter.

The Association has an operating lease for a vehicle requiring payments totaling $5,203 in the year ended December 31, 2023.

NOTE I - Net Assets

Net Assets Released From Restrictions

Net assets released from restrictions consist of the following for the year ended December 31, 2022:

Source	Amount
Education	$ 36,794
RAM on the Road	6,000
First Fridays	8,500
Pledge	258,240
Time Restricted	60,000
Racine Community Foundation	10,000
Artist Fellowship	8,600
Fiber Art International Publications	1,000
Polymer Acquisition and Care Fund	8,350
Total Donations Released from Restrictions	$ 397,484
Endowment Appropriated for Operations	774,314
Total	$1,171,798

Net Assets Without Donor Restrictions Designated by the Board

Net assets without donor restrictions designated by the board consist of funds designated by the Association's board of directors for specific use. Annually, investment income and losses are allocated to each of the funds and appropriations reduce the funds as designated by the board of directors. Losses are allocated to each fund only to the extent that principal is not invaded. Excess losses reduce operating funds held within the endowment accounts.

NOTE I - Net Assets (continued)

Board designated net assets consist of the following as of December 31, 2022:

Source	Amount
Regas Fund	$150,586
Boyd Acquisition Fund	73,410
Additions	665,086
Collection Care	20,338
Alshuler Acquisition Fund	40,792
Haas Photo	3,691
Duck Stamp	43,023
Total	$996,926

Net Assets With Donor Restrictions
The Association received donations restricted for designated purposes and periods.

Net assets with donor restrictions consist of the following as of December 31, 2022:

Source	Amount
Endowment	
Operations	$4,890,623
Acquisition Additions	253,605
Earmarked Gifts	1,011
Education	50,000
Total Endowment	$5,195,239
Toshiko Takaezu Ceramic Fund	11,725
Artist Fellowship	8,600
First Fridays	8,500
Educational Programs	50,000
Polymer Acquisition and Care Fund	38,480
Collection Care	25,000
Travel Grants	1,293
Fund for Contemporary Craft of Living Artists	41,650
Fiber Art International Publications	54,000
Time Restricted Estate	200,000
Time Restricted Employee Retention Credit	50,022
Total	$5,684,509

NOTE J - Museum Operating Agreement - City of Racine

The Association has an agreement with the City of Racine to operate the Charles A. Wustum Museum of Fine Arts located on Northwestern Avenue in Racine, Wisconsin. In July 2016, the Association signed a new agreement with the City of Racine to operate the Charles A. Wustum Museum of Fine Arts, which extended the term until December 30, 2024, with an option to extend until December 30, 2029. Either party may terminate the agreement with one-year written notice to the other party.

NOTE J - Museum Operating Agreement - City of Racine (continued)

Under these agreements, the Association is responsible for general management and control of fine art exhibitions, control over all equipment and art objects owned by the City at the museum, general care of museum grounds, housekeeping of all buildings, operation of sales and rental gallery, scheduling events, and all other functions necessary for the orderly operation of the museum and surrounding grounds for the benefit of the general public.

In consideration for operating the museum, the Association is entitled to occupy the facility and use the surrounding grounds on a rent-free basis. The estimated fair rental value of the property was $184,760 in 2022, which has been recorded as donated goods and services and occupancy expense in the Association's financial statements.

In addition, the agreement requires the city and surrounding municipalities to contribute annually an amount towards the Association's operation expenses. The contributions recorded in the financial statements were $347,135 for the year ended December 31, 2022.

NOTE K - Donated Facility Space

Donated facility space for programming at the Charles A. Wustum museum for year ended December 31, 2022, was $184,760. The value of the facility space was determined using average prices for similar space in the area.

NOTE L - Revenue From Contracts with Customers

<u>Admission and Exhibition Revenue</u>
The Association changes exhibitions two or three times each year presenting work from artists who create meaningful statements in craft media. Revenue earned from art exhibitions is recorded at the time of the admission. Admission revenue was $18,486, loan fees were $25 and competitive exhibition revenue was $3,425 for the year ended December 31, 2022. There were no assets or obligations related to admission and exhibition revenue as of December 31, 2022, or December 31, 2021.

<u>Membership Dues</u>
The Association offers several memberships with member benefits ranging from admissions to other local art museums, access to various art programs, and invitations to member only events. Annual membership dues are $45 for seniors, $55 for individuals, and $75 for families. These revenues are recognized over a period of time which corresponds with the membership year. Revenue from membership dues for the year ended December 31, 2022 was $72,140. There were no assets or obligations related to membership dues as of December 31, 2022, or December 31, 2021.

NOTE L - Revenue From Contracts with Customers (continued)

Tuition
The Association offers art classes and workshops for adults and children. Various classes with emphasis on drawing, art metals, jewelry, and glass are available and held at the Wustum location. Revenue for classes is recognized over the period of time for which the class is held. Tuition revenue was $78,156 for the year ended December 31, 2022. There were no assets related to tuition as of December 31, 2022, or December 31, 2021. Refundable advances includes tuition revenue received in advance of the dates classes are provided. Refundable advances as of December 31, 2022, and December 31, 2021, were $8,002 and $7,893, respectively. All refundable advances are expected to be earned and included in revenue within one year from the financial position date.

Auxiliary Activities
The Association has a shop on location that offers jewelry, books, and gifts available for purchase. Revenue for shop revenue and consignment sales is recognized at the point in time of the sale. Revenue from auxiliary activities for the year ended December 31, 2022, was $112,816. There were no assets or obligations related to auxiliary activities as of December 31, 2022, or December 31, 2021.

Art Selection, Curation and Purchase
On June 2, 2022, the Association entered into an agreement to select, curate, and purchase artwork for the Hotel Verdant. The Association will receive a budgeted amount for the goods and services provided to be paid 50% on agreement of the budget, 40% when final selections are made, and 10% after the art is delivered. The Association recognizes revenue as art is purchased and delivered, any budget amount not spent will be retained by Racine Art Museum Association, Inc. The Association recognizes the revenue as the performance obligations are met. Revenue was $355 during the year ended December 31, 2022. There were no assets as of December 31, 2022, or December 31, 2021 related to art selection, curation and purchase. Refundable advances were $66,495 and $-0- as of December 31, 2022, and December 31, 2021, respectively. All refundable advances are expected to be earned and included in revenue within one year from the financial position date.

Special Events
The Association holds the largest and most significant contemporary craft collection in North America, with more than 9,500 objects from nationally and internationally recognized artists auctioning off various items. The Association hosts fundraising events throughout the year to raise much-needed support for the Association's award-winning exhibitions and education programming for children, adults, and families. Revenue from special events including auctions and other sales for the year ended December 31, 2022, was $114,271, of which $85,471 is considered to be received in exchange for goods or services provided.

NOTE M - Retirement Benefits

The Association provides a 401(k) plan for full and part-time employees. After one year of service, those age 21 years or older that work over 1,000 hours per year are eligible to enter the plan and are eligible to receive contributions provided by the Association. The Association will provide a safe harbor match based on the amount of the employee contribution. The Association will provide a match ratio of employee contribution to Association contribution as follows: 1%:1%, 2%:2%, 3%:3%, 4%:3.5%, 5%:4%. The safe harbor contribution is fully vested upon contribution. In addition, the Association may provide an additional elective contribution of up to 3.5%, regardless of employee contribution, which would vest over a seven-year period. Association contributions to the plan during the year ended December 31, 2022, were $64,788.

NOTE N - Related Parties

The Association received $25,846 of donations from board members, employees, and their families.

NOTE O - Income Taxes

The Association is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. Management has reviewed all tax positions recognized in previously filed tax returns and those expected to be taken in future tax returns. As of December 31, 2022, the Association had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties.

NOTE P - Subsequent Events

The Association has evaluated events and transactions occurring after December 31, 2022 through September 12, 2023, the date the financial statements are available to be issued, for possible adjustments to the financial statements or disclosures. Management has determined that no subsequent events need to be disclosed.