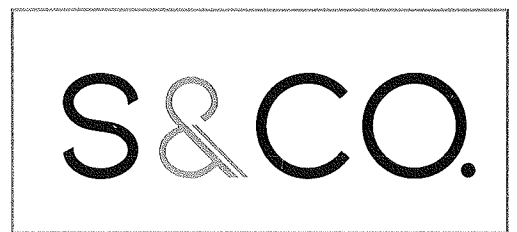


AUDIT REPORT AND FINANCIAL STATEMENTS
OF
HUNTINGTON MUSEUM OF ART, INC.
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018



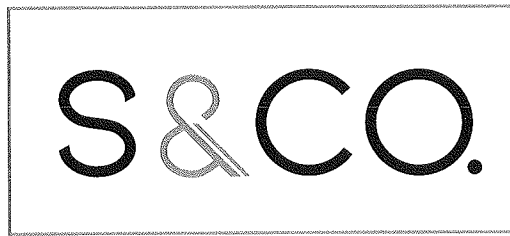
SOMERVILLE & COMPANY^{PLLC}

CPAs & CONSULTANTS

C O N T E N T S

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SOMERVILLE BUILDING
501 FIFTH AVENUE
PO BOX 2096
HUNTINGTON, WV 25721



(304) 525-0301
FAX (304) 522-1569
FOLLOW US ON TWITTER:
@SOMERVILLE_CPAs

SOMERVILLE & COMPANY_{PLLC}
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Huntington Museum of Art, Inc.
Huntington, West Virginia

We have audited the accompanying financial statements of Huntington Museum of Art, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 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.

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Huntington Museum of Art, Inc. as of June 30, 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.

Somerille & Company, P.L.L.C.

Huntington, West Virginia

October 16, 2019

HUNTINGTON MUSEUM OF ART, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2019 and 2018

ASSETS

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 222,710 | \$ 129,099 |
| Cash and cash equivalents - restricted | 475,527 | 580,261 |
| Investments - endowment funds (Note 3) | 10,167,774 | 9,815,632 |
| Investments - Museum Making Connections (Note 3) | 288,322 | 474,231 |
| Investments - Gropius (Note 3) | 65,212 | 123,015 |
| Investments - other (Note 3) | 1,970 | 1,970 |
| Interest in perpetual trusts (Note 1.1.) | 6,559,798 | 6,529,466 |
| Interest receivable | 25,452 | 20,107 |
| Unconditional promises to give (Note 5) | 103,859 | 88,650 |
| Inventory | 52,278 | 49,995 |
| Property, plant, and equipment, net (Note 6) | 4,395,649 | 4,336,608 |
| Other assets | 55,991 | 47,870 |
| | <hr/> | <hr/> |
| Total Assets | <u>\$ 22,414,542</u> | <u>\$ 22,196,904</u> |

LIABILITIES AND NET ASSETS

| | | |
|-------------------------------------|----------------------|----------------------|
| Liabilities | | |
| Accounts payable | \$ 84,356 | \$ 17,632 |
| Accrued expenses | 86,133 | 81,454 |
| Accrued taxes | 14,400 | 14,732 |
| Deferred revenue | 73,435 | 84,456 |
| Notes payable (Note 7) | 74,178 | - |
| | <hr/> | <hr/> |
| Total Liabilities | <u>332,502</u> | <u>198,274</u> |
| Net Assets | | |
| Without donor restrictions (Note 8) | 4,639,072 | 4,623,127 |
| With donor restrictions (Note 9) | 17,442,968 | 17,375,503 |
| | <hr/> | <hr/> |
| Total Net Assets | <u>22,082,040</u> | <u>21,998,630</u> |
| | <hr/> | <hr/> |
| Total Liabilities and Net Assets | <u>\$ 22,414,542</u> | <u>\$ 22,196,904</u> |

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

HUNTINGTON MUSEUM OF ART, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------|
| Revenues and Support | | | |
| Annual giving | \$ 333,020 | \$ - | \$ 333,020 |
| Donations and gifts | 435,926 | 201,700 | 637,626 |
| Fund raising events, net of direct expenses of \$87,587 | 146,875 | - | 146,875 |
| Government support | 158,698 | - | 158,698 |
| Fees and tuition | 74,180 | 9,575 | 83,755 |
| Perpetual trust distributions | 237,296 | 72,740 | 310,036 |
| Investment income | 379,671 | 300,615 | 680,286 |
| Change in value of perpetual trusts | 30,333 | - | 30,333 |
| General support | 46,488 | - | 46,488 |
| Facility and loan fees | 7,140 | - | 7,140 |
| Museum shop | 86,206 | - | 86,206 |
| | <hr/> | <hr/> | <hr/> |
| Total Revenues and Support | 1,935,833 | 584,630 | 2,520,463 |
| Net Assets Released | | | |
| From Restrictions | 748,751 | (748,751) | - |
| | <hr/> | <hr/> | <hr/> |
| Total Increase (Decrease) | 2,684,584 | (164,121) | 2,520,463 |
| Expenses | | | |
| Program services | | | |
| Curatorial | 352,193 | - | 352,193 |
| Museum Making Connections | 257,461 | - | 257,461 |
| Conservatory | 154,739 | - | 154,739 |
| Library | 34,984 | - | 34,984 |
| Exhibitions and programs | 229,863 | - | 229,863 |
| Audience services | 273,275 | - | 273,275 |
| Supporting services | | | |
| Administration | 277,164 | - | 277,164 |
| Development | 344,812 | - | 344,812 |
| | <hr/> | <hr/> | <hr/> |
| Total Expenses | 1,924,491 | - | 1,924,491 |
| Net Increase (Decrease) | 760,093 | (164,121) | 595,972 |
| Depreciation | (277,248) | - | (277,248) |
| Gain on disposition of assets | - | 1,351 | 1,351 |
| Reclassification (endowment gifts) | (230,235) | 230,235 | - |
| | <hr/> | <hr/> | <hr/> |
| Change in Net Assets Before Changes | | | |
| Related to Collection Items Not Capitalized | 252,610 | 67,465 | 320,075 |
| Collection items purchased | (236,665) | - | (236,665) |
| | <hr/> | <hr/> | <hr/> |
| Change in Net Assets | 15,945 | 67,465 | 83,410 |
| Net Assets at Beginning of Year | 4,623,127 | 17,375,503 | 21,998,630 |
| | <hr/> | <hr/> | <hr/> |
| Net Assets at End of Year | \$ 4,639,072 | \$ 17,442,968 | \$ 22,082,040 |
| | <hr/> | <hr/> | <hr/> |

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

HUNTINGTON MUSEUM OF ART, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|---------------|
| Revenues and Support | | | |
| Annual giving | \$ 335,226 | \$ - | \$ 335,226 |
| Donations and gifts | 70,464 | 345,417 | 415,881 |
| Fund raising events, net of direct expenses of \$88,644 | 129,165 | - | 129,165 |
| Government support | 152,689 | - | 152,689 |
| Fees and tuition | 65,548 | 9,210 | 74,758 |
| Perpetual trust distributions | 245,696 | 71,396 | 317,092 |
| Investment income | 430,109 | 174,360 | 604,469 |
| Change in value of perpetual trusts | 127,861 | - | 127,861 |
| General support | 39,588 | - | 39,588 |
| Facility and loan fees | 1,756 | - | 1,756 |
| Museum shop | 76,158 | - | 76,158 |
| | <hr/> | <hr/> | <hr/> |
| Total Revenues and Support | 1,674,260 | 600,383 | 2,274,643 |
| Net Assets Released From Restrictions | 522,567 | (522,567) | - |
| | <hr/> | <hr/> | <hr/> |
| Total Increase (Decrease) | 2,196,827 | 77,816 | 2,274,643 |
| | <hr/> | <hr/> | <hr/> |
| Expenses | | | |
| Program services | | | |
| Curatorial | 352,449 | - | 352,449 |
| Museum Making Connections | 278,362 | - | 278,362 |
| Conservatory | 92,242 | - | 92,242 |
| Library | 34,613 | - | 34,613 |
| Exhibitions and programs | 214,333 | - | 214,333 |
| Audience services | 250,078 | - | 250,078 |
| Supporting services | | | |
| Administration | 258,548 | - | 258,548 |
| Development | 322,054 | - | 322,054 |
| | <hr/> | <hr/> | <hr/> |
| Total Expenses | 1,802,679 | - | 1,802,679 |
| Net Increase (Decrease) | 394,148 | 77,816 | 471,964 |
| Depreciation | (277,249) | - | (277,249) |
| Gain on disposition of assets | - | - | - |
| Reclassification (endowment gifts) | (223,466) | 223,466 | - |
| | <hr/> | <hr/> | <hr/> |
| Change in Net Assets Before Changes Related to Collection Items Not Capitalized | (106,567) | 301,282 | 194,715 |
| Collection items purchased | (122,012) | - | (122,012) |
| | <hr/> | <hr/> | <hr/> |
| Change in Net Assets | (228,579) | 301,282 | 72,703 |
| Net Assets at Beginning of Year | 4,851,706 | 17,074,221 | 21,925,927 |
| | <hr/> | <hr/> | <hr/> |
| Net Assets at End of Year | \$ 4,623,127 | \$ 17,375,503 | \$ 21,998,630 |
| | <hr/> | <hr/> | <hr/> |

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

HUNTINGTON MUSEUM OF ART, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

| | Program Services | | | | | | Supporting Services | | | |
|---|------------------|---------------------------|--------------|-----------|--------------------------|-------------------|---------------------|----------------|-------------|--------------|
| | Curatorial | Museum Making Connections | Conservatory | Library | Exhibitions and Programs | Audience Services | Sub-Total | Administration | Development | Total |
| Salaries and wages | \$ 170,133 | \$ 107,684 | \$ 54,141 | \$ 19,818 | \$ 40,861 | \$ 138,677 | \$ 531,314 | \$ 130,416 | \$ 206,120 | \$ 867,850 |
| Employee benefits | 30,736 | 11,524 | 12,957 | 1,122 | - | 36,609 | 92,948 | 25,784 | 34,196 | 152,928 |
| Payroll taxes | 15,555 | 8,801 | 4,738 | 1,740 | 324 | 12,402 | 43,560 | 10,844 | 18,088 | 72,492 |
| Professional fees and contract services | 58,909 | 76,344 | 3,529 | - | 42,512 | 2,307 | 183,601 | 18,759 | 12,780 | 215,140 |
| Supplies | 2,023 | 23,975 | 2,485 | 5 | 34,791 | 50,794 | 114,073 | 12,476 | 3,795 | 130,344 |
| Telephone/communications | - | 416 | - | - | - | 10,770 | 11,186 | 5,553 | - | 16,739 |
| Postage and shipping | 2,488 | 358 | - | 4 | 16,213 | 3,889 | 22,952 | 1,763 | 3,426 | 28,141 |
| Occupancy | 67,621 | 17,866 | 76,444 | 8,174 | 32,742 | - | 202,847 | 35,233 | 33,211 | 271,291 |
| Rental/maintenance of equipment | 1,297 | - | 160 | 1,984 | 4,551 | 3,248 | 11,240 | 12,517 | 11,221 | 34,978 |
| Printing/advertising/publications | - | 709 | - | 2,137 | 28,593 | 10,906 | 42,345 | 2,262 | 9,656 | 54,263 |
| Travel and vehicles | 679 | 4,739 | - | - | 7,169 | - | 12,587 | 2,457 | 673 | 15,717 |
| Awards/assistance | - | 500 | - | - | 6,000 | - | 6,500 | - | - | 6,500 |
| Membership dues | 335 | 85 | 285 | - | - | 360 | 1,065 | 6,799 | 100 | 7,964 |
| Sponsored events | 2,417 | 3,092 | - | - | 16,107 | 704 | 22,320 | 7,031 | 2,290 | 31,641 |
| Miscellaneous | - | 1,368 | - | - | - | 2,609 | 3,977 | 5,270 | 9,256 | 18,503 |
| Totals | \$ 352,193 | \$ 257,461 | \$ 154,739 | \$ 34,984 | \$ 229,863 | \$ 273,275 | \$ 1,302,515 | \$ 277,164 | \$ 344,812 | \$ 1,924,491 |

HUNTINGTON MUSEUM OF ART, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018

| | Program Services | | | | | | Supporting Services | | | Total |
|---|------------------|---------------------------|--------------|-----------|--------------------------|-------------------|---------------------|----------------|-------------|--------------|
| | Curatorial | Museum Making Connections | Conservatory | Library | Exhibitions and Programs | Audience Services | Sub-Total | Administration | Development | |
| Salaries and wages | \$ 181,586 | \$ 129,170 | \$ 47,800 | \$ 18,470 | \$ 42,673 | \$ 123,386 | \$ 543,085 | \$ 105,172 | \$ 179,170 | \$ 827,427 |
| Employee benefits | 34,478 | 12,525 | 2,863 | 1,065 | - | 33,851 | 84,782 | 23,654 | 31,253 | 139,689 |
| Payroll taxes | 16,903 | 10,747 | 4,221 | 1,619 | 303 | 10,999 | 44,792 | 9,410 | 15,949 | 70,151 |
| Professional fees and contract services | 22,349 | 69,949 | 4,162 | - | 22,401 | 5,966 | 124,827 | 26,269 | 22,346 | 173,442 |
| Supplies | 9,797 | 22,977 | 2,484 | 129 | 51,247 | 45,152 | 131,786 | 13,619 | 4,504 | 149,909 |
| Telephone/communications | - | - | - | - | - | 10,077 | 10,077 | 5,393 | - | 15,470 |
| Postage and shipping | 1,700 | 291 | 2 | - | 2,998 | 3,566 | 8,557 | 1,750 | 2,837 | 13,144 |
| Occupancy | 64,450 | 20,029 | 30,435 | 10,288 | 53,464 | - | 178,666 | 36,824 | 34,820 | 250,310 |
| Rental/maintenance of equipment | 5,613 | - | - | 1,178 | - | 1,744 | 8,535 | 11,826 | 9,558 | 29,919 |
| Printing/advertising/publications | 11,521 | 1,146 | - | 1,864 | 28,075 | 12,583 | 55,189 | 5,139 | 4,806 | 65,134 |
| Travel and vehicles | 2,875 | 7,924 | - | - | 5,497 | - | 16,296 | 1,963 | 1,637 | 19,896 |
| Awards/assistance | - | 500 | - | - | - | - | 500 | - | - | 500 |
| Membership dues | 173 | 85 | 275 | - | - | 380 | 913 | 4,189 | 290 | 5,392 |
| Sponsored events | 1,004 | 3,019 | - | - | 7,675 | 586 | 12,284 | 7,607 | 4,776 | 24,667 |
| Miscellaneous | - | - | - | - | - | 1,788 | 1,788 | 5,733 | 10,108 | 17,629 |
| Totals | \$ 352,449 | \$ 278,362 | \$ 92,242 | \$ 34,613 | \$ 214,333 | \$ 250,078 | \$ 1,222,077 | \$ 258,548 | \$ 322,054 | \$ 1,802,679 |

HUNTINGTON MUSEUM OF ART, INC.

STATEMENT OF CASH FLOWS

For the years ended June 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Cash Flows From Operating Activities | | |
| Change in Net Assets | \$ 83,410 | \$ 72,703 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 277,248 | 277,249 |
| Gain on disposition of assets | (1,351) | - |
| Collection items purchased | 236,665 | 122,012 |
| Realized gain on investments | (115,303) | (8,785) |
| Change in value of perpetual trusts | (30,333) | (127,861) |
| Unrealized gain on investments | (380,955) | (418,472) |
| Uncollectible receivables | 7,966 | 9,990 |
| (Increase) decrease in assets: | | |
| Interest receivable | (5,345) | 1,076 |
| Unconditional promises to give | (23,175) | (6,472) |
| Inventory | (2,283) | (5,900) |
| Other assets | (8,121) | 14,997 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 66,724 | (15,514) |
| Accrued expenses | 4,679 | 3,044 |
| Accrued taxes | (332) | 539 |
| Deferred revenue | (11,021) | 23,988 |
| Total adjustments | 15,063 | (130,109) |
| Net Cash Provided By (Used In) Operating Activities | 98,473 | (57,406) |
| Cash Flows From Investing Activities | | |
| Change in restricted cash | \$ 104,734 | \$ (28,889) |
| Purchase of property, plant, and equipment | (334,937) | (171,153) |
| Purchase of collection items | (236,665) | (122,012) |
| Purchase of investments | (3,661,891) | (4,458,402) |
| Proceeds from sale of investments | 4,049,719 | 4,722,814 |
| Net Cash Used In Investing Activities | (79,040) | (57,642) |
| Cash Flows From Financing Activities | | |
| Proceeds from issuance of notes payable | 85,000 | - |
| Principal payments on notes payable | (10,822) | - |
| Net Cash Provided By Financing Activities | 74,178 | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | 93,611 | (115,048) |
| Cash and Cash Equivalents at Beginning of Year | 129,099 | 244,147 |
| Cash and Cash Equivalents at End of Year | \$ 222,710 | \$ 129,099 |
| Supplemental Disclosure of Cash Flows Information: | | |
| Cash Paid For: | | |
| Interest | \$ 1,401 | \$ - |

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

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Summary of significant accounting policies:

A. Organization:

Huntington Museum of Art, Inc. (the Museum) is a nonprofit Corporation incorporated in the State of West Virginia. The Museum administers major programs as described below.

Curatorial:

This program is responsible for the care, display, and interpretation of the art in the permanent collection and the coordination and supervision of all exhibitions and their attendant programming.

Museum Making Connections:

This program area includes the Museum Making Connections education outreach program. All workshops, classes, and camps are provided through this program. The Museum Making Connections Department is also responsible for the operation of the interactive Education Gallery, school tours, and training of the Docents.

Conservatory:

The Museum operates the C. Fred Edwards Conservatory and manages the subtropical and tropical plant collections and greenhouses.

Library:

Collections research and public research services are provided by the Museum Library.

Exhibitions and Programs:

This program includes all art exhibitions and their attendant programming and the nature trails. This program area also includes the music programming and the Gropius Master Artists Workshops.

Audience Services:

Public awareness of all Museum activities and audience development is provided by this department through print and media outlets, the Museum website, publication of the Members Magazine, and direct contact. The Museum Shop markets work of local artists, merchandise, and education materials related to the current Museum collection, programs, and exhibitions.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Summary of significant accounting policies (Continued):

A. Organization (Continued):

Supporting services of the Museum are grouped into categories as follows:

Administration:

The administration of the Museum provides executive management, financial accounting, clerical, and Board of Trustees support services.

Facilities:

Facilities is responsible for the maintenance and upkeep of the public buildings, the physical plant system, and the 52-acre grounds and site.

Development:

Membership, fundraising, and long-range endowment growth are the primary responsibilities of Development.

B. Stewardship policies:

The Museum operates under Board approved policies in providing good stewardship for its resources. The Collections Management Policy sets forth policies and procedures for accession, conservation, preservation, deaccession, and disposal of the permanent art collection. The Collections Development Plan sets forth the areas in which the Museum will expand its art collection and how it plans to hone and shape specific existing parts of the collection. The Guidelines for Professional Ethics set forth parameters for the actions and behavior of all trustees, staff, and volunteers as they relate to the Museum's operations. The Investment Policy is designed to provide a consistent long-term vision for the investment of the Museum's endowment funds and to assist the Board of Trustees in effectively supervising and monitoring these investments. The following Board approved policies further aid the Museum in providing good stewardship of its resources: Accessibility Policy, Emergency Preparedness Policy, Sexual Abuse Policy, and Personnel Policy.

C. Basis of accounting:

The Museum follows the accrual basis of accounting.

D. Cash and cash equivalents:

For the purposes of the Statement of Cash Flows, the Museum considers all cash accounts, short-term investments, and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Summary of significant accounting policies (Continued):

E. Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities.

F. Promises to give:

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without.

The fair value of promises to give that are due in more than one year is estimated by discounting the future cash flows by using current risk-free rates of return based on U.S. Treasury security yields with maturity dates similar to the expected collection period.

The Museum uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on management's analysis of specific promises made.

G. Inventory:

Inventories, comprised of the Museum Shop retail items, are stated at the latest invoice cost, which approximates the lower of cost (first-in, first-out method) or market.

H. Property, plant, and equipment:

The Museum observes a policy of capitalizing expenditures in excess of \$1,000 for property, plant, and equipment at cost. Contributed property and equipment is recorded at fair value at the date of donation. Depreciation is being provided over the estimated useful lives of the assets using the straight-line method as follows:

| | <u>Range of Lives</u> |
|--------------------------------|-----------------------|
| Office equipment and furniture | 3 - 40 years |
| Grounds and driveways | 7 - 20 years |
| Buildings and improvements | 5 - 80 years |
| Conservatory | 40 years |

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Summary of significant accounting policies (Continued):

I. Perpetual trusts:

Various donors have established perpetual trusts administered by various third parties for the benefit of the Museum. Under the terms of these trusts, the Museum has the irrevocable right to receive all or part of the income earned on the trust assets in perpetuity, but will never receive the assets held in trust.

The Museum recognizes new trusts of these types as contribution revenue and as an asset when the Museum is notified of a trust's existence. The fair value of the contribution is estimated using the fair value of the assets contributed to the trust. The contribution is classified as net assets with restrictions, as the Museum does not have control of the trust. Annual distributions from the trust are reported as revenue. Annually, the Museum remeasures its beneficial interest based upon the fair market value of the trust assets.

J. Net assets:

The Museum presents its net assets and all balances and transactions based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Museum and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Museum. These net assets may be used at the discretion of the Museum's management and Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

K. Income taxes:

The Museum is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Summary of significant accounting policies (Continued):

L. Functional expense and cost allocation:

The costs of providing programs and other activities have been listed on a function basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among program, management and general, and fundraising expenses. The expenses that are allocated include the following:

| <u>Expense</u> | <u>Method of Allocation</u> |
|--------------------|-----------------------------|
| Salaries and wages | Time and effort |
| Employee benefits | Time and effort |
| Facility expenses | Square footage and usage |

M. Accounting for uncertain tax positions:

The Museum follows the provisions of Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Museum is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Museum believes that it has not engaged in any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of June 30, 2019 and 2018.

N. Accounting estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Museum 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.

O. Advertising costs:

Advertising costs are expensed as incurred.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Summary of significant accounting policies (Continued):

P. Adoption of accounting pronouncement:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets without restrictions and net assets with restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Museum, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses. The new standard is effective for the Museum's year ended June 30, 2019 and thereafter and must be applied on a retrospective basis. The Museum adopted the ASU effective July 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

2. Liquidity and availability:

Financial assets available for general expenditure, that is, without donor restrictions limiting their use within one year of the Statement of Activities date, consist of the following at June 30, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 222,710 | \$ 129,099 |
| Unconditional promises to give | 103,859 | 88,650 |
| Inventory | <u>52,278</u> | <u>49,995</u> |
| | <u>\$ 378,847</u> | <u>\$ 267,744</u> |

The Museum's endowment funds consist of donor-restricted endowments. Donor-restricted endowment funds are not available for general expenditure.

As part of the Museum's liquidity management plan, cash in excess of daily requirements is invested in money market funds, short-term investments, and long-term investments.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

3. Investments:

Investments are carried at fair value at June 30, 2019 and 2018 as follows:

| <u>June 30, 2019</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain</u> |
|----------------------|---------------------|----------------------|------------------------|
| Money market funds | \$ 416,955 | \$ 416,609 | \$ (346) |
| Equity securities | 5,168,892 | 7,113,397 | 1,944,505 |
| Fixed income | 2,542,889 | 2,597,542 | 54,653 |
| Municipal bonds | <u>383,784</u> | <u>395,730</u> | <u>11,946</u> |
| | <u>\$ 8,512,520</u> | <u>\$ 10,523,278</u> | <u>\$2,010,758</u> |

| <u>June 30, 2018</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain</u> |
|----------------------|---------------------|----------------------|------------------------|
| Money market funds | \$ 299,744 | \$ 299,744 | \$ - |
| Equity securities | 5,803,454 | 7,489,609 | 1,686,155 |
| Fixed income | 2,681,847 | 2,625,495 | (56,352) |
| Municipal bonds | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 8,785,045</u> | <u>\$ 10,414,848</u> | <u>\$ 1,629,803</u> |

Investment return for the years ended June 30, 2019 and 2018 is summarized as follows:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|-------------------|-------------------|
| Interest and dividends | \$ 243,457 | \$ 237,459 |
| Realized gain | 115,303 | 8,785 |
| Unrealized gain | 380,955 | 418,472 |
| Investment management fees | <u>(59,429)</u> | <u>(60,247)</u> |
| Total investment income | <u>\$ 680,286</u> | <u>\$ 604,469</u> |

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

3. Investments (Continued):

FASB Accounting Standards Codification (ASC) 958-205 provides guidance on the net asset classification of donor-restricted funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958-205 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of West Virginia enacted UPMIFA effective March 5, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Museum adopted FASB ASC 958-205 for the year ended June 30, 2009. The Board of Trustees determined that certain Museum net assets with restrictions meet the definition of endowment funds under UPMIFA.

The Museum's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Museum's Board of Trustees has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 Museum classifies as net assets with restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Museum, and (7) the Museum's investment policies.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

3. Investments (Continued):

Investment Return Objectives, Risk Parameters, and Strategies. The Museum has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5.5%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Museum has a policy of appropriating for distribution each year 5.5% of its endowment fund's fair value. In establishing this policy, the Museum considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Museum's objective is to maintain the purchasing power of the endowment assets.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

4. Fair value measurements:

Fair values of assets measured on a recurring basis at June 30, 2019 and 2018 are as follows:

| <u>Fair Value Measurements at Reporting Date Using:</u> | | | | |
|---|----------------------|---|--|--|
| | <u>Fair Value</u> | <u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| <u>June 30, 2019</u> | | | | |
| Money market funds | \$ 416,609 | \$ 416,609 | \$ - | \$ - |
| Equity securities | 7,113,397 | 7,113,397 | - | - |
| Fixed income | 2,597,542 | 2,597,542 | - | - |
| Municipal bonds | <u>395,730</u> | <u>395,730</u> | - | - |
| Total | <u>\$ 10,523,278</u> | <u>\$ 10,523,278</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>June 30, 2018</u> | | | | |
| Money market funds | \$ 299,744 | \$ 299,744 | \$ - | \$ - |
| Equity securities | 7,489,609 | 7,489,609 | - | - |
| Fixed income | 2,625,495 | 2,625,495 | - | - |
| Municipal bonds | <u>-</u> | <u>-</u> | - | - |
| Total | <u>\$ 10,414,848</u> | <u>\$ 10,414,848</u> | <u>\$ -</u> | <u>\$ -</u> |

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 on unobservable inputs. There were no Level 2 or Level 3 inputs for the years ended June 30, 2019 and 2018.

5. Unconditional promises to give:

A summary of unconditional promises to give at June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|------------------|
| Without restrictions – open door membership campaign | \$ 85,659 | \$ 53,858 |
| Other unconditional promises to give | <u>18,200</u> | <u>34,792</u> |
| Unconditional promises to give | <u>\$ 103,859</u> | <u>\$ 88,650</u> |

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

6. Property, plant, and equipment, net:

A summary of property, plant, and equipment at June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|---------------------|---------------------|
| Land | \$ 116,154 | \$ 116,154 |
| Grounds and driveways | 164,493 | 113,058 |
| Buildings and improvements | 7,419,433 | 7,222,719 |
| Conservatory | 1,980,524 | 1,904,560 |
| Office equipment and furniture | 414,250 | 402,073 |
| Vehicles | <u>32,849</u> | <u>32,849</u> |
| | 10,127,703 | 9,791,413 |
| Less accumulated depreciation | <u>5,732,054</u> | <u>5,454,805</u> |
| | <u>\$ 4,395,649</u> | <u>\$ 4,336,608</u> |

7. Notes payable:

The Museum's outstanding notes payable indebtedness at June 30, 2019 and 2018 was as follows:

| | <u>2019</u> | <u>2018</u> |
|--|------------------|-------------|
| WesBanco Bank, Inc. – 2.15% note payable, due \$1,496 per month, including interest until October 2023, secured by checking account. | \$ 74,178 | \$ - |
| Less current portion | <u>16,527</u> | <u>-</u> |
| Long-term portion | <u>\$ 57,651</u> | <u>\$ -</u> |

Scheduled maturities of notes payable indebtedness in each of the next five years are as follows:

| | |
|------|-----------|
| 2020 | \$ 16,527 |
| 2021 | 16,886 |
| 2022 | 17,252 |
| 2023 | 17,627 |
| 2024 | 5,886 |

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

8. Net assets without donor restrictions:

Net assets without donor restrictions at June 30, 2019 and 2018 consisted of the following:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Undesignated | \$ 317,601 | \$ 286,519 |
| Invested in property and equipment, net of related debt | <u>4,321,471</u> | <u>4,336,608</u> |
| | <u>\$ 4,639,072</u> | <u>\$ 4,623,127</u> |

9. Net assets with donor restrictions:

Net assets with donor restrictions at June 30, 2019 and 2018 consisted of the following:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Endowment funds | \$ 10,455,119 | \$ 10,302,879 |
| Interest in perpetual trusts | 6,691,305 | 6,691,306 |
| Restricted for Gropius funds | 70,034 | 146,559 |
| Restricted for acquisitions | 144,627 | 188,782 |
| Restricted for conservation | 3,109 | 20,063 |
| Restricted for Winslow Anderson | 46,591 | 63,507 |
| Restricted for Don Harper/Fitzpatrick Society | 29,294 | 42,824 |
| Restricted for Museum Making Connections | 365,818 | 511,198 |
| Restricted for landscaping, gardens, and grounds | 2,238 | 3,710 |
| Restricted for technology | 39,000 | 39,000 |
| Restricted for trails | 14,685 | 14,762 |
| Underwater endowments | <u>(418,852)</u> | <u>(649,087)</u> |
| | <u>\$ 17,442,968</u> | <u>\$ 17,375,503</u> |

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

10. Net assets released from restrictions:

Net assets were released throughout the years ended June 30, 2019 and 2018 from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Satisfaction of Gropius funds | \$ 82,406 | \$ 100,185 |
| Satisfaction of acquisitions | 179,884 | 83,513 |
| Satisfaction of conservation | 21,702 | 4,709 |
| Satisfaction of Winslow Anderson | 44,294 | 38,462 |
| Satisfaction of Don Harper/Fitzpatrick Society | 45,396 | 11,260 |
| Satisfaction of Daine print gallery | - | 5,066 |
| Satisfaction of Museum Making Connections | 252,684 | 252,067 |
| Satisfaction of exhibitions | 63,581 | 66,599 |
| Satisfaction of Glacken book project | - | 10,000 |
| Satisfaction of landscaping, gardens, and grounds | 2,442 | 828 |
| Satisfaction of library | 7,247 | 7,618 |
| Satisfaction of nature and education | 2,872 | 3,019 |
| Satisfaction of technology | 2,877 | 3,024 |
| Satisfaction of trails | 1,136 | 7,740 |
| Satisfaction of operating expenses, excess of investment income over spend rate, and recovery of deficits | <u>42,230</u> | <u>(71,523)</u> |
| | <u>\$ 748,751</u> | <u>\$ 522,567</u> |

11. Endowments:

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

| | <u>With Donor Restrictions</u> | |
|---|--------------------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| Endowment net assets, beginning of year | \$ 9,815,632 | \$ 9,380,070 |
| Contributions | 149,939 | 339,657 |
| Investment income, net | 608,092 | 524,279 |
| Amounts appropriated for expenditure | <u>(405,889)</u> | <u>(428,374)</u> |
| Endowment net assets, end of year | <u>\$ 10,167,774</u> | <u>\$ 9,815,632</u> |

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

12. Operating lease obligations:

The Museum is the lessee of a mailing system and copier under operating leases expiring in January 2024 and May 2024, respectively. The Museum also periodically rents equipment and furnishings for various events.

Future lease payments under the operating leases at June 30, 2019 are as follows:

| | | |
|------------------------------|----|---------------|
| 2020 | \$ | 5,295 |
| 2021 | | 5,295 |
| 2022 | | 5,295 |
| 2023 | | 5,295 |
| 2024 | | 4,270 |
| Thereafter | | <u>-</u> |
| Total minimum lease payments | \$ | <u>25,450</u> |

Rental expense for the years ended June 30, 2019 and 2018 amounted to \$17,194 and \$16,056, respectively.

13. Pension plan:

The Museum has a defined contribution 401(k) plan covering all eligible full-time personnel. The Museum contributed 5% of eligible compensation during the years ended June 30, 2019 and 2018.

Employer contributions to the above plans for the years ended June 30, 2019 and 2018 were \$36,071 and \$37,434, respectively.

14. Contributed services and assets:

Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of these contributed services has not been determined and is not reflected in the accompanying financial statements.

The Museum receives a significant amount of skilled, contributed volunteered time, which does not meet the two (2) recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

The Museum, from time to time, receives investments and capital assets from donors. These assets are recorded at the approximate fair value at the date of donation.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

15. Endowment spending policy:

The spending policy of the Museum for endowments is calculated by multiplying a percentage by a base. This computation is made at the beginning of each fiscal year.

The yearly distribution, which is calculated as of December 31, is based on a trailing three (3) year average of the Endowment's semi-annual market value, with the understanding that this spending rate plus inflation will not normally exceed total return from investments. It is understood that this total return basis for calculating spending is sanctioned by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as described in Note 3, under which guidelines the Museum is permitted to spend an amount in excess of the current yield (interest and dividends earned), including realized and unrealized appreciation.

The determination of the percentage factor for spending is reviewed annually in light of evolving trends with respect to investment returns, the rate of inflation, and the Museum's needs. It was the Museum's judgment that for the fiscal year ended June 30, 2019, an annual percentage factor of 5.125% for operating endowments, 5.125% for restricted endowments, and 4.5% for art and conservation was appropriate.

16. Collections:

The value of art at the Museum has been excluded from the Statement of Financial Position. The art collection is insured for \$24,000,000.

The cost of objects purchased is reported as collection items purchased on the Statement of Activities. The proceeds from objects sold are reported as sale of collection items on the Statement of Activities. During the years ended June 30, 2019 and 2018, purchases of art objects amounted to \$236,665 and \$122,012, respectively, and the value of objects acquired by gift is unknown.

17. Credit risk:

Financial instruments that are exposed to concentrations of credit risk consist of cash, accounts receivable, and investments. The cash and investments are in high quality institutions and companies with high credit ratings. Accounts receivable are principally with museum members and various individuals within the community. Cash and investments are based on quoted market prices. Accounts receivable are carried at estimated net realizable values.

Financial instruments that potentially subject the Museum to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC). The Museum's cash and cash equivalent accounts exceeded the FDIC limits at various times during the year ended June 30, 2019. Cash and cash equivalents exceeding federally insured limits totaled \$80,706 at June 30, 2019.

HUNTINGTON MUSEUM OF ART, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

18. Commitments and contingencies:

Funding:

The Museum receives funding from state and local sources. Certain funding sources are subject to additional audit procedures completed by various state agencies, which could result in disallowed costs.

19. Reclassifications:

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. The amount of \$872,553 was reclassified from net assets with restrictions to net assets without restrictions as of July 1, 2017.

20. Subsequent events:

The Museum has evaluated all subsequent events through October 16, 2019, the date the financial statements were available to be issued.