

**THE HEARD MUSEUM AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019**



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**THE HEARD MUSEUM AND AFFILIATE
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YEAR ENDED SEPTEMBER 30, 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Heard Museum and Affiliate
Phoenix, Arizona

We have audited the accompanying consolidated financial statements of The Heard Museum and Affiliate as of September 30, 2019, which comprise the consolidated statement of financial position and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Board of Trustees
The Heard Museum and Affiliate

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Heard Museum and Affiliate as of September 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, management adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
January 29, 2020

**THE HEARD MUSEUM AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	267,672
Receivables		2,006
Pledges Receivable		692,700
Merchandise Inventories, Net		1,380,685
Prepaid Expenses		135,698
Total Current Assets		2,478,761

INVESTMENTS

10,254,200

RESTRICTED ASSETS

Cash		1,355,979
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PROPERTY AND EQUIPMENT, Net

15,453,688

OTHER ASSETS, Net

1,221

Total Assets

\$ 29,543,849

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	\$	724,034
Deferred Income		547,373
Line of Credit		575,000
Deposits		87,683
Notes Payable		73,009
Total Current Liabilities		2,007,099

GIFT ANNUITY PAYABLE

19,275

NOTES PAYABLE

151,524

Total Liabilities

2,177,898

NET ASSETS

Without Donor Restrictions		17,508,811
With Donor Restrictions		9,857,140
Total Net Assets		27,365,951

Total Liabilities and Net Assets

\$ 29,543,849

See accompanying Notes to Consolidated Financial Statements.

**THE HEARD MUSEUM AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES AND SUPPORT			
Revenues:			
Museum Shop and Bookstore Sales	\$ 3,033,687	\$ -	\$ 3,033,687
Membership Dues	928,772	-	928,772
Admissions	1,127,374	-	1,127,374
Private Use Fees	427,581	-	427,581
Café Revenue	717,691	-	717,691
Educational Programs	236	-	236
Other Revenues	48,053	-	48,053
Total Revenues	<u>6,283,394</u>	<u>-</u>	<u>6,283,394</u>
Public Support:			
Individuals	332,265	722,901	1,055,166
Foundations	75,000	1,377,500	1,452,500
Government	84,119	115,901	200,020
Corporate Sponsorship	103,111	121,000	224,111
Contributed Goods and Services	159,732	-	159,732
Guild Event Revenue	403,736	87,898	491,634
Total Public Support	<u>1,157,963</u>	<u>2,425,200</u>	<u>3,583,163</u>
Special Events:			
Revenues from Special Events	1,012,753	-	1,012,753
Less: Costs of Direct Donor Benefits	<u>(176,046)</u>	<u>-</u>	<u>(176,046)</u>
Gross Profit from Special Events	<u>836,707</u>	<u>-</u>	<u>836,707</u>
Total Revenues and Support	8,278,064	2,425,200	10,703,264
Net Assets Released from Restriction	2,735,452	(2,735,452)	-
OPERATING EXPENSES			
Program Expenses	9,624,386	-	9,624,386
Support Services:			
Management and General	1,836,664	-	1,836,664
Membership Development	359,866	-	359,866
Fundraising	617,752	-	617,752
Total Operating Expenses	<u>12,438,668</u>	<u>-</u>	<u>12,438,668</u>
CHANGE IN OPERATING NET ASSETS	(1,425,152)	(310,252)	(1,735,404)
NONOPERATING ACTIVITIES			
Investment Income	58,744	58,880	117,624
Change in Value of Gift Annuity	-	(6,671)	(6,671)
Total Nonoperating Activities	<u>58,744</u>	<u>52,209</u>	<u>110,953</u>
CHANGE IN NET ASSETS	(1,366,408)	(258,043)	(1,624,451)
Net Assets - Beginning of Year	<u>18,875,219</u>	<u>10,115,183</u>	<u>28,990,402</u>
NET ASSETS - END OF YEAR	<u>\$ 17,508,811</u>	<u>\$ 9,857,140</u>	<u>\$ 27,365,951</u>

See accompanying Notes to Consolidated Financial Statements.

**THE HEARD MUSEUM AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2019**

	Support Services				Total Support Services	Total
	Program Services	Management and General	Membership Development	Fundraising		
Cost of Sales	\$ 1,845,095	\$ -	\$ -	\$ -	\$ -	\$ 1,845,095
Wages and Benefits	3,278,775	756,974	96,334	398,283	1,251,591	4,530,366
Professional Fees and Contract Services	230,760	157,900	12,630	5,478	176,008	406,768
Conferences, Conventions, and Meetings	20,271	62,695	2,180	23,894	88,769	109,040
Information Technology	62,982	67,918	14,916	18,406	101,240	164,222
Insurance	-	123,007	-	-	123,007	123,007
Advertising and Promotion	-	293,907	-	-	293,907	293,907
Bank and Credit Card Processing Fees	134,704	19,236	11,304	27,009	57,549	192,253
Occupancy	100,444	5,233	-	3,140	8,373	108,817
Utilities	404,525	41,518	-	13,146	54,664	459,189
Office	70,391	69,917	1,296	1,764	72,977	143,368
Postage, Shipping, and Printing	40,591	8,060	86,225	6,909	101,194	141,785
Supplies	160,971	23,540	691	2,491	26,722	187,693
Travel	22,649	14,793	-	244	15,037	37,686
Interest	-	34,390	-	-	34,390	34,390
Depreciation and Amortization	1,654,608	89,793	-	53,876	143,669	1,798,277
Other	36,389	16,365	-	1,820	18,185	54,574
Member Services	-	-	134,290	-	134,290	134,290
Acquisitions and Conservation	150,297	-	-	-	-	150,297
Exhibit Design and Production:						
Exhibit Design and Production - Supplies and Materials	56,975	-	-	-	-	56,975
Exhibit Design and Production - Contract Services	213,819	-	-	-	-	213,819
Exhibit Design and Production - Fees	71,619	-	-	-	-	71,619
Exhibit Design and Production - Printing	81,169	-	-	-	-	81,169
Exhibit Design and Production - Shipping	285,072	-	-	-	-	285,072
Exhibit Programming - Contract Services	43,899	-	-	-	-	43,899
Subtotal	752,553	-	-	-	-	752,553
Festivals and Programming:						
Festivals and Programming - Advertising and Promotion	-	51,418	-	-	51,418	51,418
Festivals and Programming - Contract Services	492,899	-	-	-	-	492,899
Festivals and Programming - Supplies	55,747	-	-	-	-	55,747
Festivals and Programming - Travel	109,735	-	-	-	-	109,735
Subtotal	658,381	51,418	-	-	51,418	709,799
Fundraising Events:						
Fundraising Events - Contract Services	-	-	-	34,191	34,191	34,191
Fundraising Events - Supplies	-	-	-	22,465	22,465	22,465
Fundraising Events - Travel	-	-	-	4,636	4,636	4,636
Fundraising Events - Direct Donor Benefits	-	-	-	176,046	176,046	176,046
Subtotal	-	-	-	237,338	237,338	237,338
Total Functional Expenses	9,624,386	1,836,664	359,866	793,798	2,990,328	12,614,714
Less Expenses Netted Against Revenues:						
Direct Donor Benefits	-	-	-	(176,046)	(176,046)	(176,046)
Total Operating Expenses Included on the Consolidated Statement of Activities	<u>\$ 9,624,386</u>	<u>\$ 1,836,664</u>	<u>\$ 359,866</u>	<u>\$ 617,752</u>	<u>\$ 2,814,282</u>	<u>\$ 12,438,668</u>

See accompanying Notes to Consolidated Financial Statements.

**THE HEARD MUSEUM AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (1,624,451)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,798,277
Unrealized and Realized Loss on Investments	25,589
Change in Discount on Pledges Receivable	(32,849)
Changes in Value of Gift Annuity Payable, Net of Payments	(1,629)
Increase (Decrease) in Cash Resulting from Changes In:	
Receivables	6,782
Pledges Receivable	91,368
Merchandise Inventories	(106,611)
Prepaid Expenses	85,378
Accounts Payable and Accrued Expenses	241,206
Deferred Income	13,857
Deposits	25,077
Net Cash Provided by Operating Activities	521,994

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales of Investments	4,019,677
Purchase of Investments	(3,523,958)
Purchases of Property and Equipment	(1,546,810)
Increase in Cash Restricted to Investment in Property and Equipment	196,775
Net Cash Used by Investing Activities	(854,316)

CASH FLOWS FROM FINANCING ACTIVITIES

Net Change in Line of Credit	475,000
Repayments on Notes Payable	(144,467)
Net Cash Provided by Financing Activities	330,533

NET DECREASE IN CASH AND CASH EQUIVALENTS

(1,789)

Cash and Cash Equivalents - Beginning of Year

269,461

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 267,672

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid for Interest	\$ 34,390
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SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY

Conversion of Line of Credit to Installment Note Payable	\$ 369,000
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See accompanying Notes to Consolidated Financial Statements.

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Heard Museum is an institution incorporated in 1929 as an Arizona nonprofit corporation. The Heard Museum creates and presents exhibitions that are drawn from or inspired by American Indian art and culture, that are visually and intellectually stimulating, cost-effective, and that attract the broadest possible audience both in Phoenix and abroad whilst setting new standards for excellence in scholarship, educational programming, community outreach, and visitor experience. The Heard Museum Guild and the Heard Museum Council are volunteer organizations that support and aid the work of the board of trustees and the staff of The Heard Museum and which are included in the records of The Heard Museum and are not separate legal entities.

Heard Family Trust (the Trust) is an irrevocable perpetual trust that was created by the Heard family for the benefit of The Heard Museum. The Trust is administered by JP Morgan Chase, an outside trustee. The Trust has elected to be classified as a private foundation and is subject to excise taxes.

The significant accounting policies are as follows:

Consolidated Financial Statements

The consolidated financial statements include the accounts of The Heard Museum, Guild, Council, and the Trust (collectively referred to as the Museum). All of the financial activities and balances of these organizations are included in these consolidated financial statements. All significant interorganization accounts and transactions have been eliminated in consolidation.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The board of trustees have designated, from net assets without donor restrictions, net assets for operating reserves and board-designated endowments.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Contributions are reported as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid financial instruments purchased with original maturities of three months or less.

Receivables

Receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based upon its assessment of the current status of individual balances. Account balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction of accounts receivables. At September 30, 2019, the allowance for doubtful accounts was \$-0-

Pledges Receivable

Unconditional promises to give (pledges receivable) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value, calculated as the net present value of their estimated future cash flows as of the date of the promise to give.

THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Merchandise Inventories

Merchandise inventories consist of books, gift items, and art-related objects held for resale and are carried at the lower of cost as determined by the specific identification method or net realizable value for purchased goods. Contributed goods held for sale are recorded at fair value. Inventory consists of the following:

Jewelry	\$ 605,518
Kachinas	117,949
Pottery and Baskets	173,955
Textiles	200,992
Publications	178,748
Other	214,039
Inventory Valuation Reserve	<u>(110,516)</u>
Total	<u><u>\$ 1,380,685</u></u>

Inventory items, with the exception of publications and some sundries, are purchased from American Indian artists. In addition, the Museum shop sells American Indian art items on consignment; such consignment items are not reflected in the inventory balance. At September 30, 2019, the shop held \$1,208,187 of consignments.

Investments

Investments, consisting primarily of equity securities, corporate bonds, and mutual funds with readily determinable market values are measured at fair value as of year-end in the consolidated statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are recognized in the consolidated statement of activities. Investments in equity securities with readily determinable fair values and all investments in debt securities are presented at fair value in the consolidated statement of financial position as determined by available market prices.

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

Restricted Assets

Certain contributions of cash were restricted by the donors or designated by the board for investment in exhibits and various property improvements.

THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchased property and equipment is stated at cost. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$2,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation and amortization accounts are relieved, and any gain or loss is included in operations. Leasehold improvements are amortized over the shorter of the useful lives of the improvements or the lease terms. Depreciation and amortization of property and equipment are computed on a straight-line basis over the respective useful lives of the assets, which range from 3 to 40 years, as follows:

Buildings	35 to 40 Years
Building Improvements	2 to 20 Years
Furniture, Fixtures, and Equipment	3 to 10 Years
Long-Term Exhibits	5 to 15 Years
Software	3 to 5 Years

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation.

Impairment of Long-Lived Assets

The Museum reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Revenue Recognition

Admissions revenue consists of ticket sales and is recognized when the tickets are sold. Museum shop and bookstore sales consist of retail sales which are recognized when goods are sold. Private use fees consist of rentals of the Museum facilities for private functions and are recognized as the events occur. Educational programs revenue consists of educational program income and publication sales and is recognized as the events occur or when publications are sold. Café revenue consists of food and beverage sales in the Museum cafes which are recognized at the time of sale.

Membership Dues

Membership dues, which are assessed annually, are recorded as deferred membership income at the renewal period and accreted as revenue ratably over the membership period.

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Events Revenue

The Museum conducts special events in which a portion of the gross proceeds paid by the participant represents payments for the benefits received by the participant at the event. The fair value of meals and entertainment provided at special events is generally measured at the actual cost to the Museum. The direct costs of the special events which ultimately benefit the donor rather than the Museum are recorded as special events costs, specifically direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit from special events in the accompanying consolidated statement of activities.

Collections

The collections of the Museum include several categories of Native American art, primarily kachina dolls, baskets, jewelry, textiles, ceramics, and fine art, as well as collections from other indigenous peoples of Latin America, Africa and Oceania, and are expensed in the period purchased. In conformity with the practice followed by many museums, art objects contributed to the Museum are not included in the accompanying consolidated financial statements. Furthermore, in conformity with industry practice, the Museum has not recorded the value of its collections on the consolidated statement of financial position. The fair value of certain collections is determined based on third-party evidence of comparable art sold through auction houses. The fair value of collections contributed to the Museum during the year ended September 30, 2019 was \$1,035,286.

Donated Services

Donated professional services are recorded as contributions in the accompanying consolidated financial statements at their estimated fair value if the services (a) enhance the Museum's nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased if not provided by donation. No amounts have been reflected in the consolidated financial statements for certain donated volunteer services because they did not qualify for recording under the generally accepted accounting principle guidelines; however, a substantial number of volunteers have donated significant amounts of their time to the Museum's program services and fundraising campaigns, primarily through the Heard Museum Guild and the Heard Museum Council.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses not directly chargeable to a specific functional classification are allocated based on the best estimates of management. Custodial staff and related expenses and depreciation are allocated using square footage allocations. Certain administrative staff wages are allocated using time studies.

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Museum uses advertising to promote its programs to the various groups it serves. The advertising costs are charged to operations as incurred. Advertising expense charged to operations for the year ended September 30, 2019 was \$345,325.

Income Taxes

The Heard Museum qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and the Trust qualifies as a charitable trust under Section 4947(a)(i) of the IRC and, accordingly, there is no provision for income taxes. In addition, The Heard Museum qualifies for the charitable contribution deduction under Section 170 of the IRC and has been classified as an organization that is not deemed to be a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Museum evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. Management believes that the Heard Museum and the Trust have no uncertain tax positions as of September 30, 2019.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial statement of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Museum has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly.

Subsequent Events

Management has evaluated subsequent events through January 29, 2020, the date the consolidated financial statements were available to be issued.

THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2 LIQUIDITY AND AVAILABILITY

The Museum regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenses over a 12-month period, the Museum considers all expenses related to its ongoing activities to be general expenses.

The following table reflects the Museum's available financial assets as of September 30, 2019:

Financial Assets:	
Cash and Cash Equivalents	\$ 267,672
Receivables	2,006
Pledges Receivable	692,700
Investments	10,254,200
Restricted Cash	<u>1,355,979</u>
Total Financial Assets	12,572,557
Less: Net Assets With Donor Restrictions, Unavailable for Expenses (Endowments, Gift Annuities, and Building Improvements)	(8,158,812)
Less: Board-Designated Endowment and Reserve Fund Net Assets	(2,387,309)
Add: Current Year Approved Endowment and Reserve Funds Spending-Rate Appropriations	<u>466,401</u>
Financial Assets Available to Meet Cash Needs for General Expenses Within One Year	<u><u>\$ 2,492,837</u></u>

The Museum operates under various grants, contributions, and contracts for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenses. The Museum manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability, 2) maintaining adequate liquid assets to fund near-term operating needs, and 3) maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Museum forecasts its future cash flows and monitors its liquidity reserves on a regular basis.

Our endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenses.

Our board-designated endowments and reserve funds of \$2,387,309 are subject to an annual spending rate of 4% to 5% as described in Note 11. Although we do not intend to spend from these funds (other than amounts appropriated for general expenses as part of our board's annual budget approval and appropriation), these amounts could be made available if necessary.

Additionally, the Museum maintains a line of credit to fund short-term liquidity needs (Note 7).

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give that are all considered due within one year and are expected to be fully collected. Accordingly, the allowance for uncollectible pledges was \$-0-.

NOTE 4 INVESTMENTS

Investments consist of the following:

Equity Securities	\$ 4,617,858
Mutual Funds	4,769,302
Cash and Cash Equivalents Held for Reinvestment	142,198
Corporate Bonds	497,782
Investment Held by Arizona Community Foundation	87,198
Alternative Assets - Hedge Funds	139,862
Total	<u><u>\$ 10,254,200</u></u>

NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Museum uses various valuation approaches within the fair value measurement framework. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Equity Securities, Mutual Funds, Corporate Bonds and Alternative Investments: Valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Pooled Investments: The Heard also invests in the Arizona Community Foundation, Inc. (ACF) pool. The fair value of these investment is based on its investment percentage in the investment pool. The ACF pool is invested in cash, equity securities, bonds, and other investments. This investment is classified within Level 3 of the valuation hierarchy.

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

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of September 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Securities	\$ 4,617,858	\$ -	\$ -	\$ 4,617,858
Mutual Funds	4,769,302	-	-	4,769,302
Corporate Bonds	487,938	9,844	-	497,782
Alternative Assets:				
Hedge Funds	139,862	-	-	139,862
Pooled Investments:				
Arizona Community Foundation	-	-	87,198	87,198
Total	<u>\$ 10,014,960</u>	<u>\$ 9,844</u>	<u>\$ 87,198</u>	<u>\$ 10,112,002</u>

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Museum did not have any other assets or liabilities subject to fair value measurement at September 30, 2019.

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended September 30:

Balance on October 1,	\$ 89,354
Net Realized/Unrealized Investment Gains	573
Dividend and Interest Income	1,721
Investment Advisory Fees	(750)
Investment Draw	(3,700)
Balance on September 30	<u>\$ 87,198</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land and Buildings	\$ 22,512,378
Buildings Improvements	7,064,538
Furniture, Fixtures, and Equipment	4,050,319
Long-Term Exhibits	9,892,875
Software	140,847
Construction in Progress	768,453
Total	<u>44,429,410</u>
Less: Accumulated Depreciation and Amortization	<u>(28,975,722)</u>
Total Property and Equipment, Net	<u>\$ 15,453,688</u>

Construction in progress as of September 30, 2019 relates primarily to the museum entry and courtyard renovations. Interest expense has not been capitalized on the construction in progress due to its immateriality.

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 7 LINE OF CREDIT, BANK

The Museum has a revolving line of credit with a maximum borrowing limit of \$800,000 and interest only payments due monthly until maturity in January 2020 at which time any outstanding advances and accrued interest are due in full. In November 2019, the revolving line of credit was renewed under essentially the same terms and conditions and extending the maturity date to January 2021. The revolving line of credit is based on a floating rate equal to *The Wall Street Journal* prime rate minus 0.75%, which was 4.25% as of September 30, 2019. The line of is secured by a first priority lien on all chattel paper, accounts, equipment, fixtures, general intangibles, and all nonaccessioned shop inventory. The outstanding balance on the revolving line of credit was \$575,000 at September 30, 2019.

NOTE 8 NOTES PAYABLE

The Museum had a Line of Credit with a maximum borrowing limit of \$369,000. During the year ended September 30, 2019, the Line of Credit automatically converted to an installment note payable with a principal balance of \$369,000. Principal and interest payments of \$6,672 are due monthly and are expected to repay the note payable by September 2022. However, any unpaid principal and interest is ultimately due upon final maturity in January 2024. Interest is based on a floating rate equal to *The Wall Street Journal* prime rate minus 0.75%, which was 4.25% as of September 30, 2019. The promissory note is secured by a first priority lien on all chattel paper, accounts, equipment, fixtures, general intangibles, and all nonaccessioned shop inventory. The annual maturities of the long-term debt at September 30 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 73,009
2021	76,173
2022	75,351
Total	<u>224,533</u>
Less: Current Maturities	<u>(73,009)</u>
Notes Payable, Net of Current Maturities	<u><u>\$ 151,524</u></u>

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 9 SPLIT-INTEREST AGREEMENTS

Charitable gift annuities are arrangements between a donor and the Museum in which the donor contributes assets in exchange for a promise from the Museum to pay the donor a fixed amount for a specified period of time. Assets received have been recognized at fair value, and an annuity payment liability has been recognized at the present value of the future cash flows expected to be paid. Contribution support is recognized as the difference between these two amounts. The life expectancy tables published by the Internal Revenue Service and a 3.20% discount rate were used to calculate the present value of the charitable gift annuities. As of September 30, 2019, the annuity payable was \$19,275.

The Museum reports contribution support from split-interest agreements in contributions and donations in the accompanying consolidated statement of activities. The change in investment valuation of split-interest agreements is reported in investment income in the accompanying consolidated statement of activities.

NOTE 10 NET ASSETS

Net Assets Without Donor Restrictions

Board-designated net assets without donor restrictions consist of amounts designated as long-term investments for the purpose of building an endowment fund to secure the future of the Museum's mission. The earnings from the long-term investments are currently being reinvested and are also designated for this purpose. Additionally, board-designated net assets without donor restrictions consist of amounts that are held in investment accounts for purposes as designated by the board. Interest income earned on these accounts is also designated for this purpose. The following are board-designated net assets without donor restrictions as of September 30, 2019:

Unrestricted Operating	\$ 15,121,502
Board-Designated Net Assets - Operating Reserves	839,687
Board-Designated Net Assets - Endowments	<u>1,547,622</u>
Total	<u><u>\$ 17,508,811</u></u>

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 10 NET ASSETS (CONTINUED)

Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

Subject to Expenses for Specified Purpose:

Collections	\$ 332,287
Nichols Publications	14,136
Building Improvements	258,906
Exhibits and Events, Includes Pledge Receivables of \$331,000	971,388
Gift Annuities	19,275
Guild Ribbon Donations	<u>18,817</u>
Total	<u>1,614,809</u>

Subject to Passage of Time:

Pledge Receivable Not Restricted by Donors	<u>361,700</u>
Total	<u>361,700</u>

Endowments:

Subject to Endowment Spending Policy
and Appropriation:

Earnings on Endowment Funds	474,302
Original Donor-Restricted Gift Amount to be Maintained in Perpetuity:	
Collections Endowment	580,406
Endowment	351,202
Heard Tomorrow Endowment	298,189
Hearst Fund	200,000
Roger Lyon Scholarship Fund	131,100
S D O'Conner Publishing Fund	190,000
Steele Foundation Fund	100,000
Heard Perpetual Trust	2,642,288
Nichols Collection Fund	301,321
Cowie Heard North Programming Endowment	111,000
Baguley Fund	50,661
Jay Kahn Memorial Fund	15,662
Dickey Family Director Endowment	2,400,000
Spirit of the Heard Endowment	<u>34,500</u>
Total	<u>7,880,631</u>

Total Donor-Restricted Net Assets	<u><u>\$ 9,857,140</u></u>
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Net assets with donor restrictions of \$2,735,452 were released when the activity or time restrictions were met as of September 30, 2019.

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 11 ENDOWMENTS

The Museum's endowments consist of several funds established for a variety of purposes. The endowment funds include both donor-restricted and board-designated endowment 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 executive committee of the board of trustees of the Museum 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, we retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts including promises to give at fair value) donated to the endowments and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by SPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

As of September 30, 2019, endowment net assets consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Net Assets	\$ -	\$ 7,880,631	\$ 7,880,631
Board-Designated Endowment Net Assets	1,547,622	-	1,547,622
Total	<u>\$ 1,547,622</u>	<u>\$ 7,880,631</u>	<u>\$ 9,428,253</u>

**THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 11 ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended September 30, 2019, are as follows:

	Donor Restrictions	Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 1,638,407	\$ 8,158,954	\$ 9,797,361
Transfers	(34,500)	34,500	-
Investment Returns:			
Investment Income and Gains and Losses	19,390	58,880	78,270
Appropriation of Assets for Expenses	(75,675)	(371,703)	(447,378)
Endowment Net Assets - End of Year	<u>\$ 1,547,622</u>	<u>\$ 7,880,631</u>	<u>\$ 9,428,253</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may exceed or fall below the level that the donor or SPMIFA requires the Museum to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in net assets with donor restrictions as of September 30, 2019.

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Under this policy, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that consists of equity-based investments and fixed-income funds.

The Museum's annual appropriations are at the discretion of the board of trustees unless specific instructions were provided by the endowment donors.

NOTE 12 LEASES

The Museum leases equipment under noncancellable operating leases with no renewal options maturing through March 2024.

Minimum future rental payments under noncancellable operating leases in excess of one year are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 17,856
2021	16,514
2022	1,752
2023	1,752
2024	1,314
Total Minimum Future Rental Payments	<u>\$ 39,188</u>

Total rental expense was \$24,180 for the year ended September 30, 2019.

THE HEARD MUSEUM AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13 DEFINED CONTRIBUTION PLAN

The Museum has a discretionary employer contribution plan (the Plan) covering all employees who have completed one year of at least 1,000 hours of service. The Museum contributes to the Plan an amount determined by the board of trustees on an annual basis. The total employer contribution is allocated to the participants pro rata based on the ratio that their eligible compensation bears to total eligible compensation for the Plan year. The participants are not required to make contributions to the Plan. There were no employer contributions for 2019.

NOTE 14 RELATED PARTIES

During 2019, the Museum received contributions from board members totaling \$490,403.

NOTE 15 CONCENTRATION OF CREDIT RISKS

The Museum maintains all of its cash with banks located in Arizona. Balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. The Museum, in the normal course of business, periodically maintains account balances in excess of the FDIC's insurance coverage limit.

At September 30, 2019, four donors made up 93% of the pledges receivable balance.

NOTE 16 COMMITMENTS AND CONTINGENCIES

The Museum has entered into a noncancellable construction contract for \$638,102 related to the museum entry renovation. As of September 30, 2019, \$211,978 had yet to be incurred on this contract.

From time to time, the Museum is contingently liable in respect to claims incidental to the ordinary course of its operations. In the opinion of management, the effect of such matters will not have a material adverse effect on the Museum's financial position, results of operations, or liquidity. Therefore, no provision has been made in the accompanying consolidated financial statements for losses, if any, that might result from the ultimate outcome of these matters.

