

**THE HEARD MUSEUM AND AFFILIATE  
CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2021**



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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, 2021, 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, 2021, 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Phoenix, Arizona  
August 23, 2022

**THE HEARD MUSEUM AND AFFILIATE  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2021**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 4,482,287
Receivables	24,977
Pledges Receivable	3,431,085
Merchandise Inventories, Net	1,226,922
Prepaid Expenses	140,838
Total Current Assets	<u>9,306,109</u>

<b>PLEDGES RECEIVABLE, Net</b>	199,004
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<b>INVESTMENTS</b>	11,893,851
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**RESTRICTED ASSETS**

Cash	5,436,893
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<b>PROPERTY AND EQUIPMENT, Net</b>	<u>13,088,505</u>
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Total Assets	<u><u>\$ 39,924,362</u></u>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable and Accrued Expenses	\$ 626,149
Deferred Income	1,873,415
Line of Credit	694,175
Deposits	82,507
Paycheck Protection Program Note Payable	80,619
Notes Payable	72,856
Total Current Liabilities	<u>3,429,721</u>

<b>GIFT ANNUITY PAYABLE</b>	10,481
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<b>PAYCHECK PROTECTION PROGRAM NOTE PAYABLE</b>	743,998
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<b>NOTES PAYABLE</b>	<u>149,092</u>
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Total Liabilities	4,333,292
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**NET ASSETS**

Without Donor Restrictions	20,169,832
With Donor Restrictions	15,421,238
Total Net Assets	<u>35,591,070</u>

Total Liabilities and Net Assets	<u><u>\$ 39,924,362</u></u>
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See accompanying Notes to Consolidated Financial Statements.

**THE HEARD MUSEUM AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUES AND SUPPORT</b>			
Revenues:			
Museum Shop and Bookstore Sales	\$ 1,923,507	\$ -	\$ 1,923,507
Membership Dues	886,745	-	886,745
Admissions	569,642	-	569,642
Private Use Fees	80,012	-	80,012
Café Revenue	166,048	-	166,048
Forgiveness of Paycheck Protection Program Note Payable	356,000	-	356,000
Other Revenues	(964)	-	(964)
Total Revenues	3,980,990	-	3,980,990
Public Support:			
Individuals	462,267	739,236	1,201,503
Foundations	3,736,100	3,877,750	7,613,850
Government	743,883	88,326	832,209
Corporate Sponsorship	263,167	98,500	361,667
Contributed Goods and Services	111,201	-	111,201
Guild Event Revenue	55,158	-	55,158
Total Public Support	5,371,776	4,803,812	10,175,588
Special Events:			
Revenues from Special Events	843,781	-	843,781
Less: Costs of Direct Donor Benefits	(7,888)	-	(7,888)
Gross Profit from Special Events	835,893	-	835,893
Total Revenues and Support	10,188,659	4,803,812	14,992,471
Net Assets Released from Restriction	1,465,793	(1,465,793)	-
<b>OPERATING EXPENSES</b>			
Program Expenses			
Collections, Library, and Exhibitions	2,106,406	-	2,106,406
Education and Community Programs	909,464	-	909,464
Retail Operations	2,530,414	-	2,530,414
Food and Beverage Operations	640,341	-	640,341
Total Program Services	6,186,625	-	6,186,625
Support Services:			
Management and General	1,799,130	-	1,799,130
Membership Development	250,051	-	250,051
Fundraising	634,002	-	634,002
Total Support Services	2,683,183	-	2,683,183
Total Operating Expenses	8,869,808	-	8,869,808
<b>CHANGE IN OPERATING NET ASSETS</b>	2,784,644	3,338,019	6,122,663
<b>NONOPERATING ACTIVITIES</b>			
Investment Income	373,442	1,570,910	1,944,352
Change in Value of Gift Annuity	(3,110)	-	(3,110)
Total Nonoperating Activities	370,332	1,570,910	1,941,242
<b>CHANGE IN NET ASSETS</b>	3,154,976	4,908,929	8,063,905
Net Assets - Beginning of Year	17,014,856	10,512,309	27,527,165
<b>NET ASSETS - END OF YEAR</b>	\$ 20,169,832	\$ 15,421,238	\$ 35,591,070

See accompanying Notes to Consolidated Financial Statements.

**THE HEARD MUSEUM AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2021**

	Program Services					Support Services				Total
	Collections, Library, and Exhibitions	Education and Community Programs	Retail Operations	Food and Beverage Operations	Total Program Services	Management and General	Membership Development	Fundraising	Total Support Services	
Salaries and Wages	\$ 774,318	\$ 329,349	\$ 691,170	\$ 298,838	\$ 2,093,675	\$ 601,469	\$ 82,414	\$ 392,652	\$ 1,076,535	\$ 3,170,210
Payroll Taxes	57,201	24,286	49,770	23,004	154,261	42,158	6,554	25,535	74,247	228,508
Employee Benefits	71,134	29,376	74,946	36,415	211,871	39,051	5,834	19,628	64,513	276,384
Art and Library Acquisitions	79,823	4,883	-	-	84,706	-	-	-	-	84,706
Bank and Credit Card Processing Fees	-	10,572	-	11,585	22,157	16,597	5,263	32,323	54,183	76,340
Cost of Sales	-	4,986	986,333	55,498	1,046,817	-	-	-	-	1,046,817
Curatorial	1,725	-	-	-	1,725	-	-	-	-	1,725
Depreciation and Amortization	409,329	222,568	496,671	126,111	1,254,679	68,189	-	40,913	109,102	1,363,781
Dues, Licenses, and Subscriptions	16,580	2,853	1,416	3,683	24,532	108,361	324	2,562	111,247	135,779
Equipment Repairs and Maintenance	19,087	9,485	21,632	8,567	58,771	4,392	-	1,743	6,135	64,906
Equipment Rental	72	39	87	22	220	23,175	-	7	23,182	23,402
Exhibition Expense	309,698	-	-	-	309,698	-	-	-	-	309,698
Information Technology	33,739	26,143	12,177	3,534	75,593	22,260	15,093	15,019	52,372	127,965
Insurance	-	-	-	-	-	135,966	-	-	135,966	135,966
Interest Expense	-	-	-	-	-	27,379	-	-	27,379	27,379
Marketing	-	-	-	-	-	459,147	-	-	459,147	459,147
Other	6,609	46,742	1,167	1,207	55,725	18,791	6,822	5,603	31,216	86,941
Postage and Shipping	3,481	1,701	162	3	5,347	2,578	11,000	2,670	16,248	21,595
Printing	7,655	127	54	-	7,836	1,453	51,264	2,337	55,054	62,890
Professional Fees and Services	155,148	109,978	18,748	15,062	298,936	124,353	61,492	77,409	263,254	562,190
Repair and Maintenance	6,857	3,728	8,320	2,113	21,018	4,484	-	685	5,169	26,187
Supplies	29,768	13,576	17,285	16,491	77,120	35,196	3,991	2,441	41,628	118,748
Travel	298	403	158	40	899	22	-	92	114	1,013
Utilities	123,884	68,669	150,318	38,168	381,039	64,109	-	12,383	76,492	457,531
Special Event Direct Donor Benefit	-	-	-	-	-	-	-	7,888	7,888	7,888
Total Functional Expenses	2,106,406	909,464	2,530,414	640,341	6,186,625	1,799,130	250,051	641,890	2,691,071	8,877,696
Less Expenses Netted Against Revenues:										
Direct Donor Benefits	-	-	-	-	-	-	-	(7,888)	(7,888)	(7,888)
Total Operating Expenses Included on the Consolidated Statement of Activities	\$ 2,106,406	\$ 909,464	\$ 2,530,414	\$ 640,341	\$ 6,186,625	\$ 1,799,130	\$ 250,051	\$ 634,002	\$ 2,683,183	\$ 8,869,808

See accompanying Notes to Consolidated Financial Statements.

**THE HEARD MUSEUM AND AFFILIATE  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 8,063,905
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	1,363,781
Unrealized and Realized Gains on Investments	(1,901,663)
Forgiveness of Paycheck Protection Program Note Payable	(356,000)
Change in Discount on Pledges Receivable	(11,430)
Changes in Value of Gift Annuity Payable, Net of Payments	(5,190)
Increase (Decrease) in Cash Resulting from Changes In:	
Receivables	(23,045)
Pledges Receivable	(3,460,735)
Merchandise Inventories	395,424
Prepaid Expenses	(47,009)
Accounts Payable and Accrued Expenses	178,028
Deferred Income	1,489,234
Deposits	35,988
Net Cash Provided by Operating Activities	5,721,288

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales of Investments	349,839
Purchase of Investments	(45,960)
Purchases of Property and Equipment	(248,865)
Net Cash Provided by Investing Activities	55,014

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from Paycheck Protection Program Note Payable	824,617
Repayments on Notes Payable	(78,156)
Net Cash Provided by Financing Activities	746,461

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents - Beginning of Year	3,396,417
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**CASH AND CASH EQUIVALENTS - END OF YEAR**

	\$ 9,919,180
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**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FINANCIAL POSITION**

Cash and Cash Equivalents	\$ 4,482,287
Restricted Cash	5,436,893
Total Cash and Cash Equivalents	\$ 9,919,180

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash Paid for Interest	\$ 27,379
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*See accompanying Notes to Consolidated Financial Statements.*



**THE HEARD MUSEUM AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021**

**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, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

Contributions are recognized as revenue in the period received or unconditionally promised, whichever is earlier. They 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, 2021, 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.

Conditional promises to give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. As of September 30, 2021, the Museum has \$1,276,757 of conditional revenue which will be recognized when the conditions have been met.

**THE HEARD MUSEUM AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021**

**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	\$ 498,017
Kachinas	99,704
Pottery and Baskets	116,677
Textiles	165,463
Publications	152,881
Other	290,220
Inventory Valuation Reserve	(96,040)
Total	<u>\$ 1,226,922</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, 2021, the shop held \$1,675,520 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.

**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.

**THE HEARD MUSEUM AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment (Continued)**

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. The portion of membership dues attributable to access to Hoop Dance and other events is recognized at the time Hoop Dance or the other events occur, the remaining portion of membership dues is accreted as revenue ratably over the membership period.

**THE HEARD MUSEUM AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021**

**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 at the time the proceeds are received from event participants.

**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, 2021 was \$29,683.

**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, 2021**

**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, 2021 was \$297,498.

**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, 2021.

**Change in Accounting Principles**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removes and modifies disclosure requirements retrospectively for nonpublic entities.

The Museum's financial statements reflect ASU 2014-09 and ASU 2018-13 guidance beginning in fiscal year 2021. The adoption of ASU 2014-09 impacted the Museum's revenue by approximately \$243,000. The adoption of ASU 2018-13 did not impact the Museum's reported revenue.

**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 HEARD MUSEUM AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021**

**NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)**

The following table reflects the Museum's available financial assets as of September 30, 2021:

Financial Assets:	
Cash and Cash Equivalents	\$ 4,482,287
Receivables	24,977
Pledges Receivable	3,630,089
Investments	11,893,851
Restricted Cash	<u>5,436,893</u>
Total Financial Assets	25,468,097
Less: Noncurrent Pledges Receivable	(199,004)
Less: Net Assets With Donor Restrictions, Unavailable for Expenses (Endowments, Gift Annuities, and Building Improvements)	(10,415,007)
Less: Board-Designated Endowment and Reserve Fund Net Assets	(2,454,039)
Add: Current Year Approved Endowment and Reserve Funds Spending-Rate Appropriations	<u>340,005</u>
Financial Assets Available to Meet Cash Needs for General Expenses Within One Year	<u><u>\$ 12,740,052</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.

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.

Board-designated endowments and reserve funds of \$2,454,039 are subject to an annual spending rate of 4% to 5% as described in Note 12. 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**  
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**NOTE 3 PLEDGES RECEIVABLE**

Pledges receivable consist of unconditional promises to give that are estimated to be collected as follows at September 30, 2021:

Unconditional Promises to Give Due in Less Than One Year	\$ 3,431,085
Unconditional Promises to Give Due in Two to Five Years	200,000
Subtotal	<u>3,631,085</u>
Less: Discount to Present Value	(996)
Total	<u>3,630,089</u>
Current Portion	<u>(3,431,085)</u>
Noncurrent Portion	<u>\$ 199,004</u>

**NOTE 4 INVESTMENTS**

Investments consist of the following:

Equity Securities	\$ 6,453,830
Mutual Funds	2,837,832
Cash and Cash Equivalents Held for Reinvestment	966,145
Corporate Bonds	1,374,880
Alternative Assets - Hedge Funds	162,640
Investment Held by Arizona Community Foundation	98,524
Total	<u>\$ 11,893,851</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.



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**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

*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.

*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 HEARD MUSEUM AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of September 30, 2021:

	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 6,453,830	\$ -	\$ -	\$ 6,453,830
Mutual Funds	2,837,832	-	-	2,837,832
Corporate Bonds	1,374,880	-	-	1,374,880
Alternative Assets:				
Hedge Funds	162,640	-	-	162,640
Pooled Investments:				
Arizona Community Foundation	-	-	98,524	98,524
Total	<u>\$ 10,829,182</u>	<u>\$ -</u>	<u>\$ 98,524</u>	<u>\$ 10,927,706</u>

The Museum did not have any other assets or liabilities subject to fair value measurement at September 30, 2021.

Purchases, sales, transfers in, and transfers out of Level 3 investments consist of the following:

	Arizona Community Foundation
Purchases	\$ -
Sales	-
Transfers In	-
Transfers Out	(3,700)

The following table describes the valuation techniques used to calculate fair value for assets in Level 3. There were no changes in valuation techniques and related inputs from the prior year.

	Fair Value at September 30, 2021	Valuation	Unobservable Inputs
Arizona Community Foundation	\$ 98,524	Percentage ownership of investment pool	The percentage ownership of investment pool as applied to investment statements

**THE HEARD MUSEUM AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 6 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Land and Buildings	\$ 22,512,378
Buildings Improvements	8,013,215
Furniture, Fixtures, and Equipment	4,379,120
Long-Term Exhibits	9,892,875
Software	140,847
Construction in Progress	148,824
Total	<u>45,087,259</u>
Less: Accumulated Depreciation and Amortization	<u>(31,998,754)</u>
Total Property and Equipment, Net	<u>\$ 13,088,505</u>

Construction in progress as of September 30, 2021 relates primarily to construction of a new exhibit.

**NOTE 7 LINE OF CREDIT, BANK**

The Museum has a revolving line of credit with a maximum borrowing limit of \$1,000,000 and interest only payments due monthly until maturity in January 2022 at which time any outstanding advances and accrued interest are due in full. The revolving line of credit is based on a floating rate equal to *The Wall Street Journal* prime rate minus 0.75%, which was 2.50% as of September 30, 2021. 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 \$694,175 at September 30, 2021.

Subsequent to year-end, the Museum received an extension of their line of credit through April 2023.

**THE HEARD MUSEUM AND AFFILIATE  
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**NOTE 8 NOTES PAYABLE**

Notes payable at September 30, 2021 consisted of the following:

<u>Description</u>	<u>Amount</u>
Installment note payable with initial 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 with any unpaid principal and interest due upon final maturity in January 2024. Floating interest rate based on <i>The Wall Street Journal</i> prime rate minus 0.75%, which was 2.50% as of September 30, 2021.	\$ 72,048
Note payable to U.S. Small Business Administration of \$149,900 bearing interest at 2.75%. The note requires monthly payments of \$641 through June 15, 2050 and is secured by a continuing security interest in all tangible and intangible personal property of the Museum, excluding a collateral security interest in and to the Museum Collections.	<u>149,900</u>
Total Notes Payable and Paycheck Protection Program Notes Payable	<u>\$ 221,948</u>

The annual maturities of the notes payable at September 30, 2021 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2022	\$ 72,856
2023	3,287
2024	3,378
2025	3,472
2026	3,569
Thereafter	<u>135,386</u>
Total	221,948
Less: Current Maturities	<u>(72,856)</u>
Notes Payable, Net of Current Maturities	<u>\$ 149,092</u>

**THE HEARD MUSEUM AND AFFILIATE**  
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**NOTE 9 PAYCHECK PROTECTION PROGRAM NOTE PAYABLE**

On April 13, 2020, the Museum received a loan from BBVA Bank in the amount of \$356,000 to fund payroll, rent, and utilities through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over 24 months deferred for 6 months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP loan bears interest at a fixed rate of 1% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the entity fails to apply for forgiveness within 10 months after the covered period, then the payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. The covered period from April 13, 2020 to September 28, 2020, is the time that a business has to spend their PPP Loan Funds. In July 2021, the Museum received notification that the PPP Loan funds were forgiven in the amount of \$356,000, plus accrued interest.

On March 16, 2021, the Museum received a second PPP Loan from BBVA Bank in the amount of \$824,617 to fund payroll, rent, and utilities. The PPP loan bears interest at a fixed rate of 1% per annum, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the entity fails to apply for forgiveness within 10 months after the covered period, then the payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. The covered period from March 16, 2021 to August 31, 2021, is the time that a business has to spend their PPP Loan Funds. Subsequent to September 30, 2021, management completed the application for forgiveness and on December 15, 2021 the Museum received communication from the U.S. Small Business Administration stating the PPP loan was forgiven in the amount of \$824,617 plus accrued interest.

The U.S. Small Business Administration may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty, however, management is of the opinion that any review will not have a material adverse impact on the Museum's financial position.

**THE HEARD MUSEUM AND AFFILIATE**  
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**NOTE 10 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, 2021, the annuity payable was \$10,481.

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 11 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, 2021:

Board-Designated Net Assets - Operating Reserves	\$ 818,694
Board-Designated Net Assets - Endowments	<u>1,635,345</u>
Total	<u><u>\$ 2,454,039</u></u>

**THE HEARD MUSEUM AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 11 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	\$ 365,395
Nichols Publications	14,583
Building Improvements	1,002,453
Exhibits and Events	4,281,786
Shop Inventory and Operations	159,332
Gift Annuities	15,671
Guild Ribbon Donations	<u>104,050</u>
Total	<u>5,943,270</u>

Subject to Passage of Time:

Pledge Receivable Not Restricted by Donors	<u>81,085</u>
Total	<u>81,085</u>

Endowments:

Subject to Endowment Spending Policy  
and Appropriation:

Earnings on Endowment Funds	1,886,481
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	116,000
Baguley Fund	50,661
Jay Kahn Memorial Fund	15,662
Dickey Family Director Endowment	2,400,000
Spirit of the Heard Endowment	34,500
General Endowment	<u>99,073</u>
Total	<u>9,396,883</u>

Total Donor-Restricted Net Assets	<u><u>\$ 15,421,238</u></u>
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Net assets with donor restrictions of \$1,465,793 were released when the activity or time restrictions were met as of September 30, 2021.

**THE HEARD MUSEUM AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 12 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, 2021, endowment net assets consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Net Assets	\$ -	\$ 9,396,883	\$ 9,396,883
Board-Designated Endowment Net Assets	1,635,345	-	1,635,345
Total	<u>\$ 1,635,345</u>	<u>\$ 9,396,883</u>	<u>\$ 11,032,228</u>



**THE HEARD MUSEUM AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 12 ENDOWMENTS (CONTINUED)**

Changes in endowment net assets for the year ended September 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 1,475,172	\$ 8,100,968	\$ 9,576,140
Contributions	-	-	-
Transfers	(126)	-	(126)
Change in Donor Intent	-	-	-
Investment Returns:			
Investment Income and Gains and Losses	221,908	1,570,910	1,792,818
Appropriation of Assets for Expenses	(61,609)	(274,995)	(336,604)
Endowment Net Assets - End of Year	<u>\$ 1,635,345</u>	<u>\$ 9,396,883</u>	<u>\$ 11,032,228</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, 2021.

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 13 CONTRACT LIABILITIES**

The Museum's contract liabilities consist of the following:

	Membership Dues	Special Events
Beginning Deferred Income Related to Contracts	\$ 383,103	\$ 1,078
Increases in Deferred Revenue - Due to Cash Received During the Year	85,296	110,851
Ending Deferred Revenue Related to Contracts	<u>\$ 468,399</u>	<u>\$ 111,929</u>

**THE HEARD MUSEUM AND AFFILIATE  
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**NOTE 14 LEASES**

The Museum leases equipment under noncancellable operating leases with no renewal options maturing through December 2025.

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>
2022	\$ 26,251
2023	26,251
2024	25,667
2025	24,498
2026	4,083
Total Minimum Future Rental Payments	<u>\$ 106,750</u>

Total rental expense was \$23,164 for the year ended September 30, 2021.

**NOTE 15 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 Plan allows the Museum to make contributions at an amount determined by the board of trustees on an annual basis. The total employer contributions are 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 2021.

**NOTE 16 RELATED PARTIES**

During 2021, the Museum received contributions from board members totaling \$693,878.

**NOTE 17 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, 2021, two donors made up 98% of the pledges receivable balance.

**THE HEARD MUSEUM AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 18 COMMITMENTS AND CONTINGENCIES**

The Museum has entered into a noncancelable construction contract for \$222,050 related to exhibit construction. As of September 30, 2021, \$51,324 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.

**NOTE 19 RISKS AND UNCERTAINTIES**

In early 2020, the World Health Organization declared the spread of Corona Virus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having effects on global markets, supply chains, businesses, and communities. Specific to the Museum, COVID-19 has impacted various parts of its operations and financial results. Management believes the Museum is taking appropriate actions to mitigate any negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

**NOTE 20 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 23, 2022, the date the consolidated financial statements were available to be issued.

In February 2022, the Museum entered into a noncancelable construction contract for \$1,465,391 related to construction of a new gallery.



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