

WESTMORELAND MUSEUM OF AMERICAN ART
Greensburg, Pennsylvania

Financial Statements
For the years ended June 30, 2020 and 2019
and Independent Auditors' Report Thereon

DRAFT 10/06/20 FOR INTERNAL USE

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DRAFT 10/06/20 FOR INTERNAL USE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
Westmoreland Museum of American Art
Greensburg, Pennsylvania

We have audited the accompanying financial statements of the Westmoreland Museum of American Art (Westmoreland), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Westmoreland as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Pittsburgh, Pennsylvania
_____, 2020

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WESTMORELAND MUSEUM OF AMERICAN ART

STATEMENTS OF FINANCIAL POSITION

| | June 30 | |
|--------------------------------------|---------------|---------------|
| | 2020 | 2019 |
| ASSETS | | |
| Cash and cash equivalents | \$ 1,366,591 | \$ 494,105 |
| Restricted cash and cash equivalents | 635,883 | 890,792 |
| | 2,002,474 | 1,384,897 |
| Inventories | 54,795 | 54,739 |
| Prepaid expenses and other assets | 105,954 | 126,508 |
| Contributions receivable | 2,287,213 | 1,210,289 |
| Investments | 3,744,753 | 4,275,040 |
| Fixed assets, net | 19,260,016 | 19,924,744 |
| Funds held in trust by others | 4,738,211 | 4,916,195 |
| | \$ 32,193,416 | \$ 31,892,412 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 41,622 | \$ 49,623 |
| Accrued expenses | 97,065 | 85,320 |
| | 138,687 | 134,943 |
| NET ASSETS | | |
| Without donor restrictions | 21,242,763 | 21,071,344 |
| With donor restrictions: | | |
| Specific purposes | 1,304,510 | 903,395 |
| Future general operating support | 1,260,000 | 1,400,000 |
| Funds held in trust by others | 4,738,211 | 4,916,195 |
| Endowment | 3,509,245 | 3,466,535 |
| | 10,811,966 | 10,686,125 |
| Total Net Assets | 32,054,729 | 31,757,469 |
| Total Liabilities And Net Assets | \$ 32,193,416 | \$ 31,892,412 |

See notes to financial statements.

WESTMORELAND MUSEUM OF AMERICAN ART

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | | Total |
|--|-------------------------------|----------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | |
| REVENUES, GAINS AND OTHER SUPPORT | | | |
| Gifts and grants | \$ 1,758,434 | \$ 1,479,620 | \$ 3,238,054 |
| Investment income, net | 61,326 | 228,189 | 289,515 |
| Special events | 162,091 | 10,600 | 172,691 |
| Membership dues | 100,061 | 28,000 | 128,061 |
| Rental | 84,487 | - | 84,487 |
| Museum shop | 66,545 | - | 66,545 |
| Miscellaneous | 37,152 | - | 37,152 |
| Admission income | 11,120 | - | 11,120 |
| Education | 7,831 | - | 7,831 |
| Net unrealized and realized (loss) gain on investments | (54,326) | 47,767 | (6,559) |
| Net assets released from restrictions: | | | |
| For operations | 1,123,822 | (1,123,822) | - |
| For exhibition-related restricted activities | 175,183 | (175,183) | - |
| For investment income spending | 369,330 | (369,330) | - |
| | <u>3,903,056</u> | <u>125,841</u> | <u>4,028,897</u> |
| EXPENSES | | | |
| Compensation and benefits | 1,749,517 | - | 1,749,517 |
| Depreciation/amortization | 700,270 | - | 700,270 |
| Exhibitions and projects | 234,445 | - | 234,445 |
| General printing and promotion | 230,511 | - | 230,511 |
| Utilities | 134,486 | - | 134,486 |
| Public receptions/events | 132,942 | - | 132,942 |
| Maintenance and repairs | 113,343 | - | 113,343 |
| Other | 60,942 | - | 60,942 |
| Insurance | 79,063 | - | 79,063 |
| Office and supplies expense | 100,268 | - | 100,268 |
| Museum shop | 70,739 | - | 70,739 |
| Professional services | 39,479 | - | 39,479 |
| Education programming | 39,302 | - | 39,302 |
| Fundraising | 41,200 | - | 41,200 |
| Professional travel and entertainment | 25,920 | - | 25,920 |
| | <u>3,752,427</u> | <u>-</u> | <u>3,752,427</u> |
| Changes In Net Assets Before Changes Related To Collections Items Not Capitalized | 150,629 | 125,841 | 276,470 |
| PROCEEDS FROM SALE OF COLLECTION ITEMS | 43,916 | - | 43,916 |
| COLLECTION ITEMS PURCHASED BUT NOT CAPITALIZED | (23,126) | - | (23,126) |
| | <u>20,790</u> | <u>-</u> | <u>20,790</u> |
| Changes In Net Assets | 171,419 | 125,841 | 297,260 |
| NET ASSETS | | | |
| Beginning of year | <u>21,071,344</u> | <u>10,686,125</u> | <u>31,757,469</u> |
| End of year | <u>\$ 21,242,763</u> | <u>\$ 10,811,966</u> | <u>\$ 32,054,729</u> |

| 2019 | | |
|-------------------------------|----------------------------|---------------------|
| Without Donor Restrictions | With Donor Restrictions | Total |
| \$ 1,181,130 | \$ 1,431,424 | \$ 2,612,554 |
| (7,320) | 278,469 | 271,149 |
| 191,794 | 5,350 | 197,144 |
| 84,108 | 25,065 | 109,173 |
| 72,099 | - | 72,099 |
| 94,680 | - | 94,680 |
| 76,870 | - | 76,870 |
| 23,886 | - | 23,886 |
| 22,537 | - | 22,537 |
| 52,316 | 126,989 | 179,305 |
| 859,024 | (859,024) | - |
| 127,001 | (127,001) | - |
| 284,232 | (284,232) | - |
| <u>3,062,357</u> | <u>597,040</u> | <u>3,659,397</u> |
| 1,629,715 | - | 1,629,715 |
| 698,507 | - | 698,507 |
| 148,870 | - | 148,870 |
| 198,599 | - | 198,599 |
| 169,308 | - | 169,308 |
| 117,889 | - | 117,889 |
| 140,257 | - | 140,257 |
| 153,637 | - | 153,637 |
| 72,858 | - | 72,858 |
| 84,569 | - | 84,569 |
| 50,841 | - | 50,841 |
| 46,908 | - | 46,908 |
| 95,126 | - | 95,126 |
| 36,300 | - | 36,300 |
| 32,356 | - | 32,356 |
| <u>3,675,740</u> | <u>-</u> | <u>3,675,740</u> |
| (613,383) | 597,040 | (16,343) |
| 25,000 | - | 25,000 |
| (52,006) | - | (52,006) |
| <u>(27,006)</u> | <u>-</u> | <u>(27,006)</u> |
| (640,389) | 597,040 | (43,349) |
| <u>21,711,733</u> | <u>10,089,085</u> | <u>31,800,818</u> |
| <u>\$21,071,344</u> | <u>\$10,686,125</u> | <u>\$31,757,469</u> |

See notes to financial statements.

WESTMORELAND MUSEUM OF AMERICAN ART

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 297,260 | \$ (43,349) |
| Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 700,270 | 698,507 |
| Gain on disposal of fixed asset | - | (2,975) |
| Donated securities | - | (337,274) |
| Net unrealized and realized loss (gain) on investments and trusts | 6,559 | (179,305) |
| Write-off of <i>Born of Fire</i> inventory | - | 49,291 |
| Changes in assets and liabilities: | | |
| Inventory | (56) | (2,972) |
| Prepaid expenses and other assets | 20,554 | (86,861) |
| Contributions receivable | (1,186,924) | 237,720 |
| Accounts payable | (8,001) | 14,259 |
| Accrued expenses | 11,745 | (80,608) |
| Funds held in trust by others | (23,996) | 188,955 |
| Net Cash (Used In) Provided By Operating Activities | <u>(182,589)</u> | <u>455,388</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from the sale of investments | 1,452,968 | 4,345,028 |
| Purchase of investments | (727,260) | (4,758,602) |
| Proceeds from sale of fixed assets | - | 13,000 |
| Purchase of fixed assets | (35,542) | (78,656) |
| Net Cash Provided By (Used In) Investing Activities | <u>690,166</u> | <u>(479,230)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Contributions restricted to long-term purposes | 110,000 | 187,600 |
| Net Cash Provided By Financing Activities | <u>110,000</u> | <u>187,600</u> |
| Net Increase In Cash And Cash Equivalents | 617,577 | 163,758 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>1,384,897</u> | <u>1,221,139</u> |
| End of year | <u><u>\$2,002,474</u></u> | <u><u>\$1,384,897</u></u> |

See notes to financial statements.

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 1 - ORGANIZATION

The Westmoreland Museum of American Art (Westmoreland) is a not-for-profit organization with a mission to offer a place to share compelling and meaningful cultural experiences that open the door to new ideas, perspectives and possibilities. The Westmoreland's collection of American Art spans centuries and its galleries are open and accessible to the public.

The Westmoreland's program activities consist of outreach presentations to local and regional schools and community groups; docent-guided tours of the Westmoreland's collections and exhibitions; educational partnerships with local schools; collaborative programs with special groups and other cultural organizations; classes and workshops; interactive gallery with hands-on activities and an art reference library for scholarly and general research. Revenue is generated through grants, donations, membership dues and events. As such, operations are primarily dependent upon outside support.

To be eligible for accession into the Westmoreland's collection, items must be of American origin or interest and relevant to the collection policy. Accessions, whether by gift or purchase, are approved by the Board of Trustees (Board). The Board also approves deaccessions from the collection.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

Basis of Accounting - The financial statements of the Westmoreland have been prepared on the accrual basis of accounting.

Use of Estimates - The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Basis of Presentation - The Westmoreland resources are classified and reported in the accompanying financial statements as separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Westmoreland and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in conducting the programs of the Westmoreland. These net assets may be used at the discretion of the Westmoreland management and the Board.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Westmoreland and/or the passage of time or those that are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Westmoreland reports gifts of cash and other assets as restricted support if they are received with donor-imposed restrictions that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - The Westmoreland considers all highly liquid investments with maturities of three months or less at date of purchase to be cash equivalents. It maintains its cash balances in various financial institutions that may exceed federally insured amounts at times. The Westmoreland has not experienced any losses on such accounts. Restricted cash and cash equivalents represent donations received from donors mainly restricted to special projects, the Capital and Endowment Campaign (Campaign) and future general operating support. (See Note 10.)

Investments - Investments are carried at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Gains and losses on the sale of investments are calculated using the first-in, first-out method. Investment income and realized and unrealized gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless a donor or law restrict their use. Investments received by gift are recorded at fair value as of the date of the gift. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in values of investment securities will occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the statements of financial position.

Investments include certain restricted funds that represent donations received from donors for which the Westmoreland has invested into money market funds, common stocks and municipal bonds, and are restricted to the Campaign. (See Note 10.)

Promises to Give - Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Westmoreland uses the direct write-off method to record uncollectible contributions receivable. These write-offs require Board approval. No provision for estimated uncollectible receivables has been made, since management considers all receivables to be fully collectible.

Inventories - Inventories consist of items held for resale. All items are valued at the lower of actual cost or net realizable value. Cost is determined by specific identification of each unit. Net realizable value is determined based on sales transactions at or near the statement of financial position date.

Fixed Assets - Fixed assets are stated at the lower of cost or market, and for assets received as gifts, at the fair value on the date of the gift. It is the Westmoreland's policy to capitalize expenditures for fixed asset items and items acquired through gifts in excess of \$500. Depreciation is provided on the straight-line method over the estimated lives of the individual assets ranging from five years to 40 years. Maintenance and repairs that do not improve or extend the lives of the respective assets are charged to current operating expenses in the year incurred.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the asset might not be recoverable. The carrying amount of the assets is compared to the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. Cash flows are projected based on historical results and expectations. In the cases where the expected future cash flows and fair value are less than the carrying amount of the assets, the assets are considered to be impaired and are written down to fair value, based on appraisals or other methods to estimate value. There were no impairment losses recorded during the years ended June 30, 2020 or 2019.

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds Held in Trust by Others - The Westmoreland has been designated as the beneficiary for certain income from funds held in trust by others, the assets of which are held by bank trustees. The assets represent the fair market value of the Westmoreland's share of the trusts and are included in the statements of financial position as net assets with donor restrictions. Distributions from the trusts are recorded as income as received as a component of net assets released from restriction for investment income spending, as either with or without restriction based on the designation by the donor. (See Note 8.)

Art Collection - Collections, which were acquired through purchases and contributions since the Westmoreland's inception, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restriction in the year in which the items are acquired or as net assets with donor restriction if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the statements of activities and changes in net assets. Proceeds from deaccessions are reflected as increases in the appropriate net asset classes and are used for the acquisition of collections.

Advertising - Advertising costs related to specific exhibits and other general advertising costs are expensed as they are incurred. Advertising expenses approximated \$166,000 and \$186,000 during the years ended June 30, 2020 and 2019, respectively.

Income Taxes - The Westmoreland is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and Pennsylvania state taxes. Effective June 1, 1995, the Westmoreland received a final determination of its status as other than a private foundation under the provisions of IRC Sections 509(a)(1) and 170(b)(1)(A)(vi). Accordingly, no provision for income taxes is recorded in the financial statements. The Westmoreland's statements of financial position at June 30, 2020 and 2019 do not include any liabilities associated with uncertain tax positions. Further, the Westmoreland has no unrecognized tax benefits. There were no interest or penalties recognized in the statements of activities for the years ended June 30, 2020 and 2019. The statutory tax years after 2016 remain open to examination.

Donated Services - Although Board members, docents, the Committee of the Westmoreland, Museum Shop workers and other volunteers have donated a substantial amount of time to the operation of the Westmoreland, no amounts have been reflected in the accompanying financial statements for donated services because no objective basis is available to measure the value of such services.

Recently Adopted Accounting Pronouncements - In November 2016, the Financial Accounting Standards Board (FASB) issued Statement of Cash Flows (Topic 230), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The standard is effective for fiscal years beginning after December 15, 2018. The Westmoreland adopted the provisions of this standard in the current year, and its adoption had no significant impact on the financial statements.

In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08), which amends ASU 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for transactions in which the entity serves as the resource recipient for annual periods beginning after December 15, 2018. For transactions in which the entity serves as the resource provider, the standard is effective for annual periods beginning after December 15, 2019. The Westmoreland adopted the provisions of ASU 2018-08 in the current year, and its adoption had no significant impact on the financial statements.

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (ASU 2014-09), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU 2014-09 (1) specifies the accounting for some costs to obtain or fulfill a contract with a customer and (2) expands disclosure requirements related to revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and permits the use of either the retrospective or cumulative effect transition method. The Westmoreland is currently evaluating the impact of the adoption of ASU 2014-09 on its financial statements and related disclosures.

The FASB has issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02), which is the result of a joint project of FASB and International Accounting Standards Board to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 amends Topic 842 to require a lessee to recognize a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term initially measured at the present value of the lease payments. The lessee should also include payments to be made on an optional lease extension if the company is reasonably certain that the extension will be exercised when measuring the asset and liability. Organizations will be permitted to make an accounting policy election to not recognize leases with a term of 12 months or less. ASU 2016-02 is effective for private companies for annual reporting periods beginning after December 15, 2021. Early application is permitted. The Westmoreland is assessing the impact that ASU 2016-02 will have on its financial statements and related disclosures.

In March 2019, the FASB issued ASU 2019-03, Not-for-Profit Entities (Topic 958) - Updating the Definition of Collections, which modifies the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned. The standard is effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. The Westmoreland is currently assessing the impact that the adoption of 2019-03 will have on its financial statements.

NOTE 3 - AVAILABILITY AND LIQUIDITY

Financial assets available within one year of the statement of financial position date for general expenditures are as follows:

| | <u>2020</u> | <u>2019</u> |
|------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,368,000 | \$ 820,000 |
| Accounts receivable | - | 1,000 |
| Contributions receivable | 972,000 | 100,000 |
| Investments | 125,000 | 727,000 |
| Endowment - spending appropriation | 352,000 | 354,000 |
| | <u>\$ 2,817,000</u> | <u>\$ 2,002,000</u> |

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 3 - AVAILABILITY AND LIQUIDITY (Continued)

The Westmoreland has approximately \$2,817,000 and \$2,002,000 of financial assets available within one year of June 30, 2020 and 2019, respectively, to meet cash needs for general operating expenditures. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of June 30, 2020 and 2019. Contributions receivable are subject to time restrictions but are expected to be collected within one year. Annual distributions of the Westmoreland's endowment fund and fund, held in trust are governed by the Finance and Investment Committee approved investment policy, which has appropriated a spending rate of 5% from these assets and will be available within the next 12 months.

As part of the Westmoreland's liquidity management, it is policy to structure financial assets to be available as general expenditures, liabilities and other obligations come due. The Westmoreland's goal is to maintain financial assets, which consist of cash and short-term investments, to meet 90 days of normal operating expenses, which average \$700,000. In addition, the Westmoreland invests cash in excess of daily requirements in interest-bearing accounts and investments, including short-term treasury bills. As described in Note 9, the Westmoreland also has a \$500,000 line of credit, which it can draw from in the event of unanticipated liquidity needs.

NOTE 4 - INVESTMENTS

Investments at June 30 are composed of the following:

| | 2020 | | 2019 | |
|-----------------|---------------------|---------------------|---------------------|---------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Money market | \$ 205,103 | \$ 250,103 | \$ 604,128 | \$ 604,128 |
| Municipal bonds | 24,809 | 26,263 | 323,297 | 324,153 |
| Common stocks | 1,835,630 | 2,592,645 | 1,777,600 | 2,428,962 |
| Mutual funds | 829,400 | 875,742 | 903,555 | 917,797 |
| | <u>\$ 2,939,942</u> | <u>\$ 3,744,753</u> | <u>\$ 3,608,580</u> | <u>\$ 4,275,040</u> |

Investment management fees approximated \$24,000 for the years ended June 30, 2020 and 2019, and show as a reduction to investment income on the accompanying statements of activities and changes in net assets.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

The Westmoreland has recorded contributions receivable at June 30 consisting of the receipt of unconditional promises to give, which are summarized as follows:

| | 2020 | 2019 |
|--------------------------------|---------------------|---------------------|
| General operating support | \$ 1,773,576 | \$ 898,568 |
| Capital and endowment campaign | 476,930 | 300,100 |
| Other | 36,707 | 11,621 |
| | <u>\$ 2,287,213</u> | <u>\$ 1,210,289</u> |
| Amounts due in: | | |
| Less than one year | \$ 1,143,727 | \$ 210,289 |
| One to 5 years | 845,000 | 700,000 |
| Thereafter | 298,486 | 300,000 |
| | <u>\$ 2,287,213</u> | <u>\$ 1,210,289</u> |

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 5 - CONTRIBUTIONS RECEIVABLE (Continued)

The majority of the Westmoreland's contributions receivable are due from major private foundations and individuals. Contributions receivable included \$20,000 from Board members as of June 30, 2019. There were no amounts receivable from Board members as of June 30, 2020.

NOTE 6 - INVENTORIES

Inventories at June 30 consisted of the following:

| | 2020 | 2019 |
|--|-----------|-----------|
| Museum shop merchandise | \$ 44,387 | \$ 44,165 |
| <i>Born of Fire</i> catalogs and boxes | 10,408 | 10,574 |
| | \$ 54,795 | \$ 54,739 |

NOTE 7 - FIXED ASSETS

A summary of fixed assets at June 30 is as follows:

| | 2020 | 2019 |
|--|---------------|---------------|
| Buildings | \$ 23,739,322 | \$ 23,736,014 |
| Furniture, fixtures and equipment | 2,057,448 | 2,029,890 |
| Land improvements | 488,250 | 488,250 |
| Books, periodicals and slides | 70,042 | 70,042 |
| <i>Born of Fire</i> record master | 20,000 | 20,000 |
| <i>Born of Fire</i> film costs | 140,000 | 140,000 |
| | 26,515,062 | 26,484,196 |
| Less - Accumulated depreciation/amortization | 7,690,240 | 6,994,646 |
| | 18,824,822 | 19,489,550 |
| Land | 435,194 | 435,194 |
| | \$ 19,260,016 | \$ 19,924,744 |

NOTE 8 - FUNDS HELD IN TRUST BY OTHERS

Income from funds held in trust by others at June 30, in which the Westmoreland has no present right to the principal but receives distributions of income, is recorded in investment income in the accompanying statements of activities and changes in net assets. Funds held in trust by others and related income are composed of the following:

| | 2020 | | 2019 | |
|-------------------------|---|--|---|--|
| | Amount of Trust Estimated Fair Value | Income Recognized By The Westmoreland | Amount of Trust Estimated Fair Value | Income Recognized By The Westmoreland |
| Mary M. Woods | \$ 2,768,421 | \$ 140,500 | \$ 2,886,966 | \$ 110,400 |
| William W. Jamison, II* | 1,147,645 | 41,900 | 1,174,343 | 37,755 |
| William A. Coulter | 822,145 | 40,650 | 854,886 | 40,800 |
| | \$ 4,738,211 | \$ 223,050 | \$ 4,916,195 | \$ 188,955 |

* This income is restricted for art acquisition.

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 9 - LINE OF CREDIT

The Westmoreland entered into a \$500,000 committed line-of-credit note with a bank, which bears an interest rate of the daily London InterBank Offered Rate plus 1.50% on borrowings and expires August 31, 2021 (0.16% at June 30, 2020). There was no outstanding balance on the line of credit as of June 30, 2020 and 2019.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions remaining as of June 30 are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Subject to the passage of time: | | |
| Future general operating support | \$ 1,260,000 | \$ 1,400,000 |
| Subject to expenditure for specific purpose: | | |
| Capital and endowment campaign | 285,931 | 461,114 |
| Education/programs | 584,777 | 233,891 |
| Collections | 76,450 | 28,167 |
| Exhibitions | 249,209 | 101,006 |
| Restriction in perpetuity: | | |
| Subject to appropriation and expenditure when a specified event occurs: | | |
| Curatorial | 440,570 | 432,279 |
| Art acquisition | 108,143 | 79,217 |
| Subject to the endowment spending policy and appropriation: | | |
| Collections, exhibits, plant and programs | 3,068,675 | 3,034,256 |
| Funds held in trust by others | 4,738,211 | 4,916,195 |
| | <u>\$ 10,811,966</u> | <u>\$ 10,686,125</u> |

NOTE 11 - ENDOWMENT

The Westmoreland's endowment consists of two individual donor-restricted funds in addition to the Westmoreland's funds held in trust by others. A fund is established for each of the following purposes:

- Collections, Exhibitions, Plant and Programs
- Curatorial
- Art Acquisition

Interpretation of Relevant Law - The Board of the Westmoreland has elected to be governed by the Commonwealth of Pennsylvania's Act 141, a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of its endowment's permanently restricted investments as income each year. The long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount. On an annual basis, the Board must elect a spending rate of between 2% and 7%. The Westmoreland classifies as permanently restricted net assets the original and subsequent value of gifts donated to the permanent endowment. In accordance with Act 141, the Westmoreland has adopted a written investment policy, of which a section specifically relates to the endowment fund.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 11 - ENDOWMENT (Continued)

The Westmoreland considers the following factors in making a determination to set a spending rate:

1. Protecting the corpus of the endowment fund.
2. Preserving the spending power of the assets.
3. Obtaining maximum investment return with reasonable risk and operational consideration.
4. Complying with applicable laws.

The Board requires 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.

Changes in endowment net assets for the years ended June 30 are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Endowment net assets, beginning of year | \$ 8,461,947 | \$ 8,340,222 |
| Investment return: | | |
| Investment income, net | 228,189 | 278,469 |
| Net appreciation | 47,767 | 126,989 |
| | <u>275,956</u> | <u>405,458</u> |
| Contributions (See Note 8.) | 28,926 | 37,755 |
| Appropriations of endowment assets for expenditures | <u>(411,230)</u> | <u>(321,488)</u> |
| Endowment net assets, end of year | \$ <u>8,355,599</u> | \$ <u>8,461,947</u> |

Return Objectives and Risk Parameters - The Westmoreland has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to provide support for current functions while generating capital appreciation to ensure expanded capabilities in the future. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under the investment policy, as approved by the Board, the endowment assets are invested in a manner intended to exceed results of various benchmarks including the S&P 500 Index, Russell 2000 Index, EAFE Index, Barclay's G/C Index and SL 3-Mo. T-Bill Index, depending on the type of investment.

Strategies Employed for Achieving Objectives - To satisfy long-term rate-of-return objectives, the Westmoreland 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 Westmoreland targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and Investment Objectives Related to Spending Policy - The Westmoreland has a policy of appropriating for distribution each year 4% of its endowment fund's 12-quarter weighted average of the market value of the assets plus all internal and external administrative and investment management expenses and fees. The long-term objective of the Westmoreland is to limit total expenses to 1% or less of the calculated average market value, thereby limiting total distributions to 6% of the same. For the years ended June 30, 2020 and 2019, the appropriations from endowment funds approximated \$412,000 and \$321,000, respectively, including amounts expended for art acquisition in accordance with donor restrictions. The Westmoreland believes this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the Westmoreland's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 11 - ENDOWMENT (Continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Westmoreland has interpreted Act 141 to permit spending from underwater endowments in accordance with prudent measures required by law. The Westmoreland has no underwater endowment funds at June 30, 2020 and 2019. The original corpus of the endowment funds is approximately \$2,764,000 at June 30, 2020 and 2019, not including funds held in trust by others.

NOTE 12 - FAIR VALUE MEASUREMENT

The Westmoreland discloses the category of assets and liabilities measured at fair value into one of three different levels, depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement.

The fair value hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The Westmoreland's financial instruments consist primarily of cash and cash equivalents, investments, contributions receivable, funds held in trust by others, accounts payable and accrued expenses. The carrying amount of cash and cash equivalents (including restricted), contributions receivable, accounts payable and accrued expenses approximates their fair value due to the short-term nature of such instruments.

The following section describes the valuation methodologies used by the Westmoreland to measure investments at fair value, including an indication of the level in the fair value hierarchy in which each major category of investments is generally classified:

Money Market Funds - Carrying value approximates fair value given their short-term nature.

Common Stocks and Mutual Funds - Investments in common stocks and mutual funds are valued at quoted market prices.

Municipal Bonds - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 12 - FAIR VALUE MEASUREMENT (Continued)

Funds Held in Trust by Others - The Westmoreland's ownership in funds held in trust by others is represented by an undivided interest in these investments, not in the underlying assets themselves. The undivided interests are not publicly traded themselves, nor can they be valued based on observable direct or indirect inputs as defined by the FASB codification. Accordingly, they are reported as Level 2 measurements, since these primarily include underlying investments, which are readily quoted in active markets. The majority use Level 1 and 2 inputs, however since the trusts themselves are not readily tradable, significant inputs are considered to be unobservable in active markets.

There were no assets or liabilities measured on a nonrecurring basis subsequent to their initial recognition. There were no transfers between fair value hierarchy levels in 2020 or 2019.

The fair value measurements and levels within the fair value hierarchy of these measurements for the assets reported at fair value on a recurring basis at June 30 are as follows:

| | 2020 | | | |
|-------------------------------|--------------|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Money market funds | \$ 250,103 | - | - | \$ 250,103 |
| Municipal bonds | - | \$ 26,263 | - | 26,263 |
| Common stocks | 2,592,645 | - | - | 2,592,645 |
| Mutual funds | 875,742 | - | - | 875,742 |
| Funds held in trust by others | - | 4,738,211 | - | 4,738,211 |
| Total | \$ 3,718,490 | \$ 4,764,474 | - | \$ 8,482,964 |

| | 2019 | | | |
|-------------------------------|--------------|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Money market funds | 604,128 | - | - | \$ 604,128 |
| Municipal bonds | \$ - | \$ 324,153 | - | 324,153 |
| Common stocks | 2,428,962 | - | - | 2,428,962 |
| Mutual funds | 917,797 | - | - | 917,797 |
| Funds held in trust by others | - | 4,916,195 | - | 4,916,195 |
| Total | \$ 3,950,887 | \$ 5,240,348 | - | \$ 9,191,235 |

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 13 - FUNCTIONAL EXPENSES

Functional expenses for the Westmoreland for the year ended June 30, 2020 are as follows:

| | <u>Program Services</u> | | | <u>Support Services</u> | | <u>Totals</u> |
|--------------------------------------|------------------------------------|---|----------------------|-------------------------|-------------------------------|---------------|
| | <u>Collections and Exhibitions</u> | <u>Program and Audience Development</u> | <u>Total Program</u> | <u>Fundraising</u> | <u>Management and General</u> | |
| Salaries, benefits and taxes | \$ 428,798 | \$ 526,150 | \$ 954,948 | \$ 455,732 | \$ 338,837 | \$ 1,749,517 |
| Occupancy and office expenses | 143,003 | 56,161 | 199,164 | 47,317 | 241,621 | 488,102 |
| Collections, exhibition and programs | 199,480 | 40,867 | 240,347 | 33,400 | - | 273,747 |
| Special events and promotions | 100,350 | 205,319 | 305,669 | 128,523 | - | 434,192 |
| Travel/meeting | 9,383 | 4,060 | 13,443 | 5,087 | 7,390 | 25,920 |
| Professional Services | 38,939 | - | 38,939 | 41,740 | - | 80,679 |
| Depreciation | 329,804 | 113,291 | 443,095 | 46,376 | 210,799 | 700,270 |
| Art acquisitions | 23,126 | - | 23,126 | - | - | 23,126 |
| Totals | \$ 1,272,883 | \$ 945,848 | \$ 2,218,731 | \$ 758,175 | \$ 798,647 | \$ 3,775,553 |

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 13 - FUNCTIONAL EXPENSES (Continued)

Functional expenses for the Westmoreland for the year ended June 30, 2019 are as follows:

| | <u>Program Services</u> | | | <u>Support Services</u> | | <u>Totals</u> |
|--------------------------------------|------------------------------------|---|----------------------|-------------------------|-------------------------------|---------------------|
| | <u>Collections and Exhibitions</u> | <u>Program and Audience Development</u> | <u>Total Program</u> | <u>Fundraising</u> | <u>Management and General</u> | |
| Salaries, benefits and taxes | \$ 431,023 | \$ 439,280 | \$ 870,303 | \$ 396,904 | \$ 362,508 | \$ 1,629,715 |
| Outside services | 4,965 | 2,859 | 7,824 | 5,059 | 8,578 | 21,461 |
| Occupancy and office expenses | 156,871 | 45,338 | 202,209 | 93,403 | 272,440 | 568,052 |
| Collections, exhibition and programs | 93,667 | 113,086 | 206,753 | 27,801 | 15,482 | 250,036 |
| Special events and promotions | 103,547 | 165,834 | 269,381 | 117,828 | 5,196 | 392,405 |
| Travel/meeting | 12,839 | 6,393 | 19,232 | 5,039 | 8,085 | 32,356 |
| Professional Services | 45,728 | - | 45,728 | 37,390 | 90 | 83,208 |
| Depreciation | 328,523 | 112,179 | 440,702 | 46,496 | 211,309 | 698,507 |
| Art acquisitions | 52,006 | - | 52,006 | - | - | 52,006 |
| Totals | <u>\$ 1,229,169</u> | <u>\$ 884,969</u> | <u>\$ 2,114,138</u> | <u>\$ 729,920</u> | <u>\$ 883,688</u> | <u>\$ 3,727,746</u> |

Certain costs have been allocated among collections/exhibitions programs and programs/audience development as part of the Program expenses and supporting services benefited. Such allocations are determined by management on an equitable basis. The method used to allocate the specific line items is primarily time and effort. Program expenses include collection items purchased but not capitalized of \$23,126 and \$52,006, for the years ended June 30, 2020 and 2019, respectively.

WESTMORELAND MUSEUM OF AMERICAN ART

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 14 - GOVERNMENT GRANT

The Westmoreland is a recipient of a Paycheck Protection Program (PPP) loan with PNC Bank of approximately \$288,400, granted by the Small Business Administration under the Coronavirus Aid, Relief and Economic Security Act (CARES Act), that is reflected as revenue as of June 30, 2020. Under program terms, PPP loans are forgiven and recognized as grant revenue if the loan proceeds are used to maintain compensation costs and employee headcount and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the loan. The Westmoreland has determined that it has met the criteria for forgiveness, therefore the amount was recognized as grant revenue in fiscal year 2020.

NOTE 15 - RETIREMENT PLAN

The Westmoreland adopted a 403(b) plan covering all eligible employees during the fiscal year ended June 30, 2009. Effective July 1, 2018, the Westmoreland amended the 403(b) to include an employer match in place of discretionary contributions. The Westmoreland made matching contributions of approximately \$26,000 for the years ended June 30, 2020 and 2019. No discretionary contributions were made during the years ended June 30, 2020 and 2019.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events are defined as events or transactions that occur after the financial position date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through _____, 2020, the date that the financial statements were issued and determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements except for the matter described in the following paragraphs.

The coronavirus pandemic could materially and adversely affect the Westmoreland and its operations into the future. The Westmoreland re-opened the museum in August 2020 after its closing in March 2020, however ongoing pandemic-related travel restrictions and closures could result in further direct operational and administrative disruptions. Additionally, the value of the Westmoreland's investment portfolio, as well as the economic position of the Westmoreland's grantors, donors and partners could be adversely affected by these disruptions, which in turn could negatively impact the Westmoreland's net assets. The Westmoreland is unable to accurately predict how restrictions related to the coronavirus pandemic will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain. While it is premature to accurately predict the ultimate impact of these developments, the Westmoreland expects its financial results and outcomes for the year ended June 30, 2021 to be impacted.

The Westmoreland was named the beneficiary of an individual's assets subsequent to the financial position date. It expects to receive a total of approximately \$1,900,000. As of September 2020, the Westmoreland has received approximately \$554,000.

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