

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Western Reserve Historical Society and Subsidiary

Report on the Financial Statements

We have audited the accompanying financial statements of The Western Reserve Historical Society and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated 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 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Prior Period Financial Statements

The 2019 consolidated financial statements of The Western Reserve Historical Society and Subsidiary as of June 30, 2019 were audited by Skoda Minotti & Co., whose practice combined with Marcum LLP as of December 1, 2019, and whose report dated November 11, 2019 expressed an unmodified opinion on those statements.

Report on Summarized Comparative Information

In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Cleveland, OH
December 24, 2020

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

	2020	2019
Assets		
Cash and cash equivalents	\$ 1,547,493	\$ 1,068,809
Accounts receivable	41,411	98,575
Prepaid expenses	17,514	19,549
Inventory	106,456	100,667
Pledges receivable, net	728,476	1,039,230
Pledges receivable, related parties	138,642	171,566
Property and equipment, net of accumulated depreciation	13,037,751	13,784,374
Collections (see Note 1)	--	--
Assets restricted by donors for investment in property and equipment	--	142,908
Investments	16,213,779	16,916,441
Investment held for sale	78,344	195,000
Beneficial interests in trusts	6,012,171	6,394,677
Total Assets	<u>\$ 37,922,037</u>	<u>\$ 39,931,796</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 93,126	\$ 164,758
Accrued expenses	49,829	26,325
Capital accounts payable	--	176,875
Deferred revenue	708,162	734,333
Refundable advances	591,368	--
Line of credit	600,197	600,197
Gift annuity obligations	38,324	40,314
Total Liabilities	<u>2,081,006</u>	<u>1,742,802</u>
Net Assets		
Without donor restrictions	13,268,277	14,620,477
With donor restrictions	22,572,754	23,568,517
Total Net Assets	<u>35,841,031</u>	<u>38,188,994</u>
Total Liabilities and Net Assets	<u>\$ 37,922,037</u>	<u>\$ 39,931,796</u>

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

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating Revenues and Support				
Gifts, grants and project support	\$ 1,095,133	\$ 1,161,147	\$ 2,256,280	\$ 3,054,274
Admissions and memberships	719,191	-	719,191	903,981
Income from perpetual trusts	339,622	-	339,622	351,414
Endowment support for current operations	43,176	759,324	802,500	784,776
Earned income	796,115	-	796,115	989,735
Net assets released from donor restrictions	<u>1,866,436</u>	<u>(1,866,436)</u>	<u>--</u>	<u>--</u>
Total Operating Revenues and Support	<u>4,859,673</u>	<u>54,035</u>	<u>4,913,708</u>	<u>6,084,180</u>
Operating Expenses				
Program services:				
Library, archives and museums	3,506,216	--	3,506,216	3,591,811
Hale Farm & Village	1,275,103	--	1,275,103	1,458,674
Other historic properties	<u>89,924</u>	<u>--</u>	<u>89,924</u>	<u>116,530</u>
Total program services	4,871,243	--	4,871,243	5,167,015
Management and general	792,753	--	792,753	935,705
Fundraising	<u>402,318</u>	<u>--</u>	<u>402,318</u>	<u>347,817</u>
Total Operating Expenses	<u>6,066,314</u>	<u>--</u>	<u>6,066,314</u>	<u>6,450,537</u>
Change in Net Assets from Operations	<u>(1,206,641)</u>	<u>54,035</u>	<u>(1,152,606)</u>	<u>(366,357)</u>
Non-Operating Change				
Net investment return	19,924	92,032	111,956	838,986
Less: endowment support for current operations	(43,176)	(759,324)	(802,500)	(784,776)
Proceeds from sales of gifts-in-kind	627	--	627	7,000
Impairment loss on investment held for sale	(116,656)	--	(116,656)	--
Change in beneficial interests in trusts	--	(382,506)	(382,506)	(97,897)
Change in fair value of split-interest agreements	<u>(6,278)</u>	<u>--</u>	<u>(6,278)</u>	<u>(6,275)</u>
Total Non-Operating Change	<u>(145,559)</u>	<u>(1,049,798)</u>	<u>(1,195,357)</u>	<u>(42,962)</u>

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

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Change in Net Assets	\$ (1,352,200)	\$ (995,763)	\$ (2,347,963)	\$ (409,319)
Net Assets - Beginning	<u>14,620,477</u>	<u>23,568,517</u>	<u>38,188,994</u>	<u>38,598,313</u>
Net Assets - Ending	<u>\$ 13,268,277</u>	<u>\$ 22,572,754</u>	<u>\$ 35,841,031</u>	<u>\$ 38,188,994</u>

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

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Library, Archives, and Museums	Hale Farm & Village	Other Historic Properties	Total Program Services	Management & General	Fundraising	2020 Total	2019 Total
Salaries and related costs	\$ 1,476,508	\$ 597,175	\$ 16,910	\$ 2,090,593	\$ 531,579	\$ 325,482	\$ 2,947,654	\$ 3,016,036
Exhibit and educational programming materials	203,560	68,145	15,613	287,318	674	674	288,666	357,448
Merchandise	29,278	59,371	--	88,649	--	--	88,649	115,687
Event catering	24,030	25,688	--	49,718	--	33,804	83,522	168,965
Purchased services and office expenses	155,480	69,193	979	225,652	170,654	28,032	424,338	472,988
Occupancy	545,968	114,088	14,083	674,139	8,059	3,634	685,832	780,453
Liability insurance	92,293	10,580	7,388	110,261	7,991	--	118,252	117,759
Advertising	15,208	54,750	--	69,958	14,704	14,704	99,366	109,319
Other operating expenses	49,110	14,689	215	64,014	43,307	23,703	131,024	157,686
Interest expense	16,753	--	--	16,753	2,284	--	19,037	28,698
Depreciation	922,058	287,112	34,736	1,243,906	13,501	6,089	1,263,496	1,294,463
Overall Expenses	3,530,246	1,300,791	89,924	4,920,961	792,753	436,122	6,149,836	6,619,502
Less: expenses netted against revenues within:								
Gifts, grants, and project support	--	--	--	--	--	33,804	33,804	119,510
Earned income	24,030	25,688	--	49,718	--	--	49,718	49,455
Total Operating Expenses	\$ 3,506,216	\$ 1,275,103	\$ 89,924	\$ 4,871,243	\$ 792,753	\$ 402,318	\$ 6,066,314	\$ 6,450,537
Percent of Total Operating Expenses	<u>57.8%</u>	<u>21.0%</u>	<u>1.5%</u>	<u>80.3%</u>	<u>13.1%</u>	<u>6.6%</u>	<u>100.0%</u>	

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

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ (2,347,963)	\$ (409,319)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for long-term purposes	(189,500)	(805,988)
Depreciation	1,263,496	1,294,463
Net realized and unrealized losses (gains) on investments	343,504	(347,781)
Impairment loss on investment held for sale	116,656	--
Change in beneficial interest in trusts	382,506	130,952
Changes in operating assets and liabilities:		
Accounts receivable	57,164	(69,514)
Prepaid expenses	2,035	(17,770)
Inventory	(5,789)	6,458
Pledges receivable, net	310,754	110,984
Pledges receivable, related parties	32,924	38,550
Accounts payable	(71,632)	61,746
Accrued expenses	23,504	(16,288)
Deferred revenue	(26,171)	(58,390)
Refundable advances	591,368	--
Gift annuity obligations	(1,990)	(1,993)
Net Cash Provided by (Used in) Operating Activities	<u>480,866</u>	<u>(83,890)</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(693,748)	(699,435)
Sale (purchase) of assets restricted by donors for investment in property and equipment	142,908	(142,908)
Purchases of long-term investments	(4,293,757)	(4,255,910)
Proceeds from sale of long-term investments	<u>4,652,915</u>	<u>4,451,733</u>
Net Cash Used in Investing Activities	<u>(191,682)</u>	<u>(646,520)</u>
Cash Flows from Financing Activities		
Collection of contributions restricted for long-term purposes	189,500	805,988
Net payments on line of credit	<u>--</u>	<u>(75,000)</u>
Net Cash Provided by Financing Activities	<u>\$ 189,500</u>	<u>\$ 730,988</u>

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

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	<u>2020</u>	<u>2019</u>
Net Increase in Cash and Cash Equivalents	\$ 478,684	\$ 578
Cash and Cash Equivalents - Beginning of Year	<u>1,068,809</u>	<u>1,068,231</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,547,493</u>	<u>\$ 1,068,809</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 19,037	\$ 28,698

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

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

The Western Reserve Historical Society (WRHS) is a nonprofit institution that preserves and uses its collections, historic sites and museums to inspire people to discover the American experience by exploring the tangible history of Northeast Ohio.

WRHS acquired a controlling interest on August 25, 2016 as sole member of Holsey Gates Residence Preservation Foundation (Holsey Gates), a 501(c)(3) Type I supporting organization whose mission is to support the charitable and educational purposes of WRHS. The financial activity of Holsey Gates is presented as a subsidiary in these consolidated financial statements. WRHS merged the assets of Holsey Gates into WRHS and dissolved Holsey Gates in February 2020. All material inter-company accounts and transactions have been eliminated through the date of dissolution.

Collections and exhibitions focus on the Western Reserve, placing this Northeast Ohio region in its larger historical context. WRHS's holdings and exhibits provide an educational resource for library and museum users, including school children, the general public and scholars. In order to communicate effectively with these audiences, exhibits, whenever appropriate, employ modern interactive technologies and techniques. WRHS seeks to make its research materials, exhibits and programs accessible to a diverse and inclusive audience.

WRHS's headquarters in Cleveland is known as the Cleveland History Center and includes the research library, exhibit galleries, two historic homes, collections storage and administrative offices. The renowned WRHS costume collection, one of the largest of its kind in the country, and the exhibit galleries of the Crawford Auto Aviation Collection, are located in the Cleveland History Center.

WRHS also owns and operates Hale Farm & Village, a 90 acre living history museum in the Cuyahoga Valley south of Cleveland, and three other historic properties.

WRHS's revenues are from a combination of earned and contributed revenue. Earned revenue includes admission fees, memberships, proceeds from space rentals, group tour fees, store sales, school group and public program income, and fees for service revenue. Store sales are reported net of any sales taxes. Contributed revenue includes gifts, grants and endowments, from individuals and organizations located primarily in Northeast Ohio.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENT

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU are intended to 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. WRHS adopted this ASU in the fiscal year beginning July 1, 2019. WRHS adopted ASU 2018-08 using a modified prospective approach. Under the modified prospective method, contributions recorded after July 1, 2019 will be measured using the provisions in the new standard.

BASIS OF ACCOUNTING

WRHS prepares its consolidated financial statements on the accrual basis of accounting. Accordingly, the consolidated financial statements reflect all significant receivables, payables, and other liabilities.

BASIS OF PRESENTATION

WRHS reports information regarding its consolidated financial position and activities according to the following two classes of net assets:

Net assets without donor restrictions: These comprise net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of WRHS. WRHS's board may designate assets without restrictions for specific purposes from time to time.

Net assets with donor restrictions: These comprise net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature because those restrictions will be met by actions of WRHS or by the passage of time. Other donor restrictions are perpetual in nature because the donor has stipulated the funds or property be maintained in perpetuity.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONTRIBUTIONS

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and change in net assets as net assets released from donor restrictions.

Contributions of cash or other assets restricted to the acquisition of long-lived assets are recorded as donor-restricted. If there are no donor restrictions on the long-lived asset's use, the donor restrictions are considered met once the long-lived assets are placed-in-service and the related net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributed long-lived assets are recorded at fair value when received.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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

WRHS considers all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORY

Inventory is stated at the lower of cost or net realizable value on a first-in first-out (FIFO) basis. WRHS capitalizes museum store inventory when purchased and expenses it when sold.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in net investment return under non-operating change in the consolidated statement of activities and change in net assets.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost when purchased. WRHS has not capitalized the original value of land and museum buildings donated.

WRHS capitalizes these types of expenditures for costs that exceed \$1,000. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Building and land improvements	5 - 40 years
Equipment, furniture and fixtures	3 - 20 years

Routine expenditures for repairs and maintenance are expensed as incurred.

COLLECTIONS

WRHS's collections of historically significant artifacts, art objects and other materials are held for education, research and public exhibition, and are not capitalized by WRHS. The cost of collection items purchased is recorded as an expense in the year acquired.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COLLECTIONS (CONTINUED)

The Board of Directors considers staff recommendations regarding collection items to be deaccessioned and sold, which may occur because the items are duplicates or no longer meet the mission or purposes of WRHS. Net proceeds are used to acquire new collection items as well as provide for the direct care of existing collection items. Direct care of existing items includes restoration of collection items and other preservation activities, including environmental controls and general storage. Proceeds from deaccessions are reflected in the consolidated statement of activities and change in net assets as proceeds from sales of gifts-in-kind, under non-operating change.

BENEFICIAL INTERESTS IN TRUSTS

WRHS is the beneficiary of certain trusts administered by others. The trusts' assets are invested in debt and equity securities, and WRHS records its interests in these trusts at the fair value of the trust assets, unless facts and circumstances indicate that the fair value of the beneficial interests differs from the fair value of the underlying trust assets. Unless otherwise specified by the donor, trust distributions are recognized as income from perpetual trusts without donor restrictions in the consolidated statement of activities and change in net assets. Subsequent changes in the fair value of the beneficial interests in trust assets are recognized as non-operating activity in the consolidated statement of activities and change in net assets.

DEFERRED REVENUE

Deferred revenue consists of rental fees and monies received for services yet to be performed.

INCOME TAXES

WRHS is tax-exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state laws. However, WRHS engages in activities subject to Federal income taxes that are considered unrelated to its exempt purpose. There is a net operating loss carry forward of \$543,233 to offset future income tax liabilities. The tax benefit of the net operating loss carryforward is offset by a valuation allowance. The valuation allowance has decreased by approximately \$55,050 during the year ended June 30, 2020. Accordingly, WRHS has not recorded a deferred tax benefit for the effect of the net operating loss carry forward. Net operating loss carry forwards begin to expire in 2021.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES (CONTINUED)

WRHS accounts for uncertain tax provisions under FASB Accounting Standards Codification 740, *Income Taxes*, which provides a framework for how entities should recognize, measure, present and disclose uncertain tax positions in their financial statements. WRHS may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. WRHS does not have any uncertain tax positions as of June 30, 2020. As of June 30, 2020, WRHS did not record any penalties or interest associated with uncertain tax positions. There are currently no examinations pending or in progress.

CONCENTRATIONS OF RISK

WRHS has cash on hand at financial institutions which may, at times, exceed federally insured amounts.

WRHS invests in a professionally managed investment portfolio that contains common shares of publicly-traded companies, mutual funds, alternative investments, and money market funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

CONTRIBUTED SERVICES

WRHS receives a significant amount of donated services from approximately 200 unpaid volunteers who assist in program, fund-raising and special project initiatives. WRHS would recognize significant contributions of services received when those services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation. WRHS did not recognize revenue from contributed services for the year ended June 30, 2020 as the recognition criteria above were not met.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AUXILIARY ORGANIZATIONS

Included in the assets of WRHS are the accounts of the following auxiliary organizations:

African American Archives Auxiliary
Genealogical Committee
Friends of Cleveland History Center
Citizens of Hale Farm & Village

Donations to these organizations are made for the benefit of WRHS. The organizations remit to WRHS funds they have received to invest on their behalf. WRHS tracks the funds and earnings for each organization and will disburse the funds as requested by the organization to further the purposes of WRHS.

COMPARATIVE TOTALS

The consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class and related notes are not presented. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with WRHS's financial statements for the fiscal year ended June 30, 2019, from which the summarized information was derived.

FUNCTIONAL EXPENSES

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and related costs and office expenses, which are allocated based on estimates of time and effort, occupancy and depreciation, which are allocated on a square footage basis, and liability insurance, which is allocated according to relative asset valuation.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADVERTISING

Advertising costs are expensed when incurred.

SUBSEQUENT EVENTS

WRHS evaluated subsequent events through December 24, 2020, the date these consolidated financial statements were available to be issued. Except as noted in the following paragraph, there were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

In September 2020, the Organization sold its investment in 1800 Euclid LLC, a real estate investment. As a result of bids obtained from potential buyers during the fiscal year ended June 30, 2020, the Organization determined the investment was impaired and has written down the value by \$116,656 in order to reflect the asset at its fair value of \$78,344 at June 30, 2020. This investment is shown in investments held for sale in the accompanying consolidated statement of financial position at June 30, 2020. The carrying value of \$78,344 reflects the asset's fair value at June 30, 2020 based on the ultimate sale price in September 2020.

NOTE 2 - AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS

The following reflects WRHS's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of internal designations or donor-imposed restrictions within one year of the consolidated statement of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the consolidated statement of financial position date have not been subtracted as unavailable.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 2 - AVAILABILITY AND LIQUIDITY OF FINANCIAL ASSETS (CONTINUED)

Financial Assets at June 30, 2020	
Cash and cash equivalents	\$ 1,547,493
Accounts receivable	41,411
Pledges receivable, net	728,476
Pledges receivable, related parties	138,642
Investments	16,213,779
Beneficial interest in trusts	<u>6,012,171</u>
 Total Financial Assets	 <u>24,681,972</u>
 Less: amounts not available for general expenditure within one year, due to:	
Funds with donor restrictions	(1,385,570)
Funds with board designations, including a liquidity reserve	(297,697)
Reserve to fund gift annuity payments	(38,324)
Unappropriated by auxiliaries	(211,901)
Pledges receivable due in greater than one year	(85,869)
Investments held at community foundations	(47,492)
Endowments, less amounts appropriated within one year	(15,043,085)
Beneficial interests in trusts, less amounts receivable within one year	<u>(5,712,127)</u>
 Total amounts not available for general expenditure within one year:	 <u>(22,822,065)</u>
 Financial Assets Available for General Expenditures Within One Year	 <u>\$ 1,859,907</u>

WRHS is substantially supported by restricted contributions. Because a donor’s restriction requires resources to be used in a particular manner or in a future period, WRHS must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of WRHS’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, WRHS invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus as a liquidity reserve. In the event of an unanticipated liquidity need, WRHS also could draw upon its available line of credit.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 - PLEDGES RECEIVABLE

Outstanding pledges were discounted to their present value assuming their respective terms, using a discount rate of 5%. The discounted pledges are scheduled to be collected as follows:

Gross receivables due in less than one year	\$ 839,543
Gross receivables due in one to five years	85,869
Less allowance for uncollectible pledges	(46,700)
Less present value discount	<u>(11,594)</u>
Pledges Receivable, Net and Pledges Receivable, Related Parties	<u>\$ 867,118</u>

As of June 30, 2020, 79% of gross outstanding pledges are from one donor and 15% of operating revenues were contributed by this donor.

NOTE 4 - FAIR VALUE MEASUREMENTS

GAAP requires disclosure of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories:

Level 1 - Quoted unadjusted prices for identical instruments in active markets to which WRHS has access at the date of measurement.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists, or in instances where prices vary substantially over time or among brokered market makers.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's 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 by WRHS are intended to maximize the use of observable inputs and minimize the use of unobservable inputs.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended June 30, 2020.

Equity mutual funds – equity mutual funds invest primarily in common stock of domestic and international corporations in a variety of industries. Quoted prices in active markets are used to value the equity mutual funds and therefore they are classified as Level 1.

Fixed income mutual funds – fixed income mutual funds are invested in a variety of instruments including U.S. Treasuries, mortgage-backed securities, and corporate bonds of both domestic and international corporations. Quoted prices in active markets are used to value the fixed income mutual funds and therefore they are classified as Level 1.

Stable value – money market funds are invested primarily in government obligations and have an established value of \$1.00 per share and therefore they are classified as Level 1.

Beneficial interests in trusts – the fair values of the underlying assets are used to determine the fair value, based on WRHS’s proportionate beneficial interest in the investment pool.

Financial assets consisted of the following at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value:				
Mutual Funds:				
Equity	\$ 9,210,222	\$ --	\$ --	\$ 9,210,222
Fixed income	5,223,053	--	--	5,223,053
Stable value	<u>271,893</u>	<u>--</u>	<u>--</u>	<u>271,893</u>
	14,705,168	--	--	14,705,168
Beneficial interests in trusts	<u>--</u>	<u>--</u>	<u>6,012,171</u>	<u>6,012,171</u>
Total Assets in the Fair Value Hierarchy	<u>\$ 14,705,168</u>	<u>\$ --</u>	<u>\$ 6,012,171</u>	<u>\$20,717,339</u>

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Unfunded Commitments	Redemption Notice Period	Frequency	Net Asset Value
Assets Measured at Net Asset Value:				
GLASfunds SPC	None	60 days	Quarterly	\$ 1,433,813
Hatteras Institutional Fund	None	45 days	Quarterly	27,306
Pooled investments held at community foundations	None	(A)	(A)	47,492
Total Assets Measured at Net Asset Value				<u>\$ 1,508,611</u>
Total Assets at Fair Value				<u><u>\$22,225,950</u></u>

(A) – WRHS’s board of directors can request distributions of principal from these funds; however, the amount and frequency of any such distributions is subject to approval by the related community foundation board of trustees.

Liabilities measured at fair value consisted of the following at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Liabilities Measured at Fair Value:				
Gift Annuity Obligations	\$ --	\$ --	\$ 38,324	\$ 38,324

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table includes a roll-forward of the amounts in the consolidated statement of financial position for the year ended June 30, 2020 for assets classified within Level 3 of the fair value hierarchy:

Balance - July 1, 2019	\$ 6,394,677
Change in fair value	<u>(382,506)</u>
Balance - June 30, 2020	<u>\$ 6,012,171</u>

Assets classified within Level 3 of the fair value hierarchy were also valued using a market-based approach, however, because the interests being valued have no observable market values, WRHS relied upon comparable net asset values of the underlying securities for estimating the fair values of the beneficial interests in trusts. WRHS valued the gift annuity obligation by estimating the future cash payout requirements based on actuarial assumptions on the annuitants' lives, net of a discount applied to the obligation using a discount rate of 5.0%.

Certain alternative investments are measured using net asset per share as a practical expedient which is permitted under GAAP. The significant investment strategy of the investee of these alternative investments is to provide capital appreciation consistent with the return characteristics of alternative investment portfolios in larger endowments, and to provide capital appreciation with less volatility than that of the equity markets.

NOTE 5 - PROPERTY AND EQUIPMENT

At June 30, 2020, property and equipment consisted of the following:

Land	\$ 1,702,727
Building and land improvements	27,356,097
Equipment, furniture and fixtures	966,182
Construction in progress	<u>176,988</u>
	30,201,994
Less: accumulated depreciation	<u>(17,164,243)</u>
Total	<u>\$13,037,751</u>

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 5 - PROPERTY AND EQUIPMENT (CONTINUED)

Construction in progress consists of site improvements at Hale Farm & Village and an exhibit at the Cleveland History Center. These projects are scheduled to be completed during the fiscal year ending June 30, 2021.

NOTE 6 – BOARD DESIGNATED NET ASSETS

WRHS has board designated net assets, included in without donor restrictions on the accompanying consolidated statement of activities and change in net assets, for the following purposes as of June 30, 2020:

Quasi-endowment	\$ 850,325
Various projects	95,195
Reserve to pay gift annuity obligations	24,999
Liquidity reserve	<u>202,502</u>
Total	<u>\$ 1,173,021</u>

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods as of June 30, 2020:

Projects with donor purpose restrictions	\$ 1,385,570
Unappropriated from auxiliaries	211,901
Held by external trustees in perpetuity with payments made to WRHS from investment earnings	6,012,171
Donor-restricted endowments:	
Original donor-restricted endowments and amounts to be retained as principal	8,251,265
Portion subject to appropriation under UPMIFA	3,041,596
Term endowments subject to purpose and period restrictions	<u>3,670,251</u>
Total	<u>\$ 22,572,754</u>

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 8 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of the passage of time or other events specified by donors as follows for the year ended June 30, 2020:

Satisfaction of donor purpose restrictions	\$ 944,134
Passage of time restrictions	140,666
Appropriations from auxiliaries	22,312
Appropriations from donor restricted endowments	<u>759,324</u>
Total	<u>\$1,866,436</u>

NOTE 9 - ENDOWMENTS

WRHS's endowment consists of 30 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

WRHS is subject to the State of Ohio's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board of Directors appropriates such amounts for expenditure and any other purpose restrictions have been met. WRHS has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to the endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, WRHS considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. WRHS has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 9 - ENDOWMENTS (CONTINUED)

In accordance with UPMIFA, WRHS considers 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 WRHS 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 appreciation of investments
- (6) Other resources of WRHS
- (7) Investment policies of WRHS

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires WRHS to retain as a fund of perpetual duration. Deficiencies of this nature exist in four donor-restricted endowment funds, which together have an original value of \$568,798, a current fair value of \$534,180, and a deficiency of \$34,618 as of June 30, 2020. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions, and continued appropriation for certain programs that was deemed prudent by WRHS. WRHS does not modify its spending policy for underwater funds.

RETURN OBJECTIVES AND RISK PARAMETERS

WRHS has adopted investment and spending policies for endowment assets that attempt to provide funds for various operating and maintenance expenses while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that WRHS must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that over time will average the level of the approved endowment spending rate plus inflation. Actual returns in any given year may vary from this targeted growth.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

In order to maintain long-term purchasing power, WRHS 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). WRHS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 9 - ENDOWMENTS (CONTINUED)

SPENDING POLICY AND HOW INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

WRHS has a policy of appropriating for expenditure each year 5% from the endowment, calculated on the basis of market values that are determined at least quarterly and averaged over a period of three years immediately preceding the year in which the appropriation for expenditure was made.

Changes in Endowment Net Assets for the fiscal year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets – June 30, 2019	\$888,164	\$15,628,523	\$16,516,687
Investment return, net	5,337	93,913	99,250
Appropriation of endowment assets for expenditure	<u>(43,176)</u>	<u>(759,324)</u>	<u>(802,500)</u>
Endowment Net Assets - June 30, 2020	<u>\$850,325</u>	<u>\$14,963,112</u>	<u>\$15,813,437</u>

NOTE 10 - LINE OF CREDIT

WRHS maintains a revolving line of credit with a commercial bank. The line of credit has a maximum allowed borrowing of \$2,500,000. Interest is charged based on the outstanding balance at 150 basis points over the Daily LIBOR Rate. The interest rate was approximately 1.67% at June 30, 2020. Effective July 15, 2020, the minimum interest rate is set at 2.0%. The line of credit has an expiration date of July 15, 2021, and is secured by endowment assets without donor restrictions and a first mortgage on property owned by WRHS.

NOTE 11 - EMPLOYEE BENEFIT PLAN

WRHS maintains a defined contribution salary deferred 403(b) plan (the “Plan”) covering eligible employees. Under the Plan, WRHS may match 100% of employee salary deferrals up to 3%, and matches 50% of employee salary deferrals over 3% up to a maximum of 5%. The match is discretionary on an annual basis based on budgetary considerations by management. Matching contributions during the year ended June 30, 2020 were \$52,106.

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 12 - BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS

WRHS is the beneficial recipient of funds held at two public foundations. In accordance with GAAP, WRHS cannot record its beneficial interest in the principal amounts because distributions from these funds are subject to the respective foundations' variance power to direct fund distributions to other beneficiaries.

In May 2011, the Frederick C. and Kathleen S. Crawford Fund was established at the Cleveland Foundation. The market value of the Frederick C. and Kathleen S. Crawford Fund was \$17,024,741 as of June 30, 2020. The Cleveland Foundation's grant award from the Frederick C. and Kathleen S. Crawford Fund was \$726,650 for the calendar year ending December 31, 2020. This award is recorded in gifts, grants and project support with donor restrictions in the consolidated statement of activities and change in net assets until the donor-imposed restrictions are met by actions of WRHS and/or the passage of time. Subsequently, these amounts are reclassified, through net assets released from donor restrictions, into net assets without donor restrictions in the consolidated statement of activities and change in net assets.

The late Ambassador Holsey Gates Handyside established funds at The Cleveland Foundation that are intended to assist in maintaining the property and operations of the historic Holsey Gates Handyside residence in Bedford, Ohio. The market value of the funds was \$8,237,568 as of June 30, 2020. Terms of the fund permit The Cleveland Foundation to expend principal from the fund.

The market value of other community funds established for the benefit of the Western Reserve Historical Society was \$1,193,900 as of June 30, 2020.

NOTE 13 - CONTRIBUTIONS SUBJECT TO CONDITIONS

At June 30, 2020, donors have made funding commitments that are subject to conditions that WRHS must fulfill in order to be eligible to receive the funds. These amounts are not recorded until amounts are received and conditions are fulfilled under the respective agreement. The commitments are as follows:

<u>Purpose of Commitment</u>	<u>Amount Committed</u>
Library renovations	\$3,000,000
Educational programming	\$56,000
Capital projects at Hale Farm & Village	\$250,000
Youth entrepreneurship education	\$186,000

THE WESTERN RESERVE HISTORICAL SOCIETY AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 14 - NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, 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. An entity also should understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU is effective for WRHS for the fiscal year beginning July 1, 2020. WRHS has not yet completed its assessment of the impact of the new standard on its consolidated financial statements.

NOTE 15 – GLOBAL CORONAVIRUS PANDEMIC

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There have been mandates from the State of Ohio and local authorities forcing closure of various schools, businesses, and other facilities and organizations. WRHS suspended public access to its facilities on March 14, 2020 and reopened with limited public access in early July 2020. While the closures and limitations on movement are expected to be temporary, WRHS cannot estimate the financial impact at this time. Should the closures and limitations continue for an extended period of time or should the effects of the coronavirus continue to spread, the impact could have a material effect on WRHS's financial position, change in net assets, and cash flows.

WRHS received a Small Business Association (SBA) Payroll Protection Program (PPP) loan on April 20, 2020 in the amount of \$477,800. The purpose of the loan was to provide operating capital so that WRHS could continue its payroll during the COVID-19 pandemic. WRHS expects that the entire amount of the loan will be forgiven under SBA rules, and therefore WRHS management has recorded this amount in refundable advances in the consolidated statement of financial position. WRHS will record any forgiveness of the PPP loan as contribution revenue in the financial statements upon receiving final approval of forgiveness by the SBA.