

KATONAH MUSEUM OF ART

**Financial Statements and Other Financial Information
(Together with Independent Auditors' Report)**

For the Years Ended June 30, 2019 and 2018

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

KATONAH MUSEUM OF ART
FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION
(Together with Independent Auditors' Report)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Katonah Museum of Art

Report on the Financial Statements

We have audited the accompanying financial statements of Katonah Museum of Art (the "Museum" or "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and change in net assets (deficit), functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Katonah Museum of Art as of June 30, 2019 and 2018, and the changes in its net assets (deficit) and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Katonah Museum of Art adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities." Our opinion is not modified with respect to this matter.

Other Matters

Our audits were made for the purpose of forming an opinion on the financial statements as a whole. The other financial information on pages 19-22 is presented for the purposes of additional analysis of the financial statements and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Mark Peneth CP". The signature is written in a cursive, slightly slanted style.

Purchase, NY
December 3, 2019

**KATONAH MUSEUM OF ART
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 606,641	\$ 635,858
Investments	5,038,392	5,146,705
Pledges receivable	73,600	111,000
Inventory	1,575	1,812
Prepaid expenses	31,519	24,595
Other current assets	4,000	4,000
Total Current Assets	5,755,727	5,923,970
Property and Equipment, net	745,393	772,010
	\$ 6,501,120	\$ 6,695,980
LIABILITIES AND NET ASSETS (DEFICIT)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 76,154	\$ 110,599
Deferred revenue	50,877	20,433
Total Current Liabilities	127,031	131,032
Net Assets		
Without donor restrictions	614,018	513,471
With donor restrictions	5,760,071	6,051,477
Total Net Assets	6,374,089	6,564,948
	\$ 6,501,120	\$ 6,695,980

See accompanying notes to financial statements.

KATONAH MUSEUM OF ART
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)
YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Direct Support			
Contributions	\$ 642,175	\$ 382,426	\$ 1,024,601
In-kind contributions	2,000	-	2,000
Admissions, rentals and exhibition fees	48,731	-	48,731
Retail sales	768	-	768
Program income	38,336	-	38,336
Special events revenue	314,526	-	314,526
Net direct benefit to donors	(105,458)	-	(105,458)
Net assets released from restrictions	<u>862,585</u>	<u>(862,585)</u>	<u>-</u>
Total Direct Support	<u>1,803,663</u>	<u>(480,159)</u>	<u>1,323,504</u>
Other Income			
Government support	59,750	-	59,750
Investment income	-	188,753	188,753
Other income	<u>3,282</u>	<u>-</u>	<u>3,282</u>
Total Other Income	<u>63,032</u>	<u>188,753</u>	<u>251,785</u>
Total Support and Revenue	<u>1,866,695</u>	<u>(291,406)</u>	<u>1,575,289</u>
FUNCTIONAL EXPENSES			
Program Services			
Exhibitions	655,312	-	655,312
Education	<u>571,074</u>	<u>-</u>	<u>571,074</u>
Total Program Services	<u>1,226,386</u>	<u>-</u>	<u>1,226,386</u>
Support Services			
Management and general	222,903	-	222,903
Fund development	<u>316,859</u>	<u>-</u>	<u>316,859</u>
Total Support Services	<u>539,762</u>	<u>-</u>	<u>539,762</u>
Total Functional Expenses	<u>1,766,148</u>	<u>-</u>	<u>1,766,148</u>
CHANGE IN NET ASSETS (DEFICIT)	100,547	(291,406)	(190,859)
Net assets - beginning of year	<u>513,471</u>	<u>6,051,477</u>	<u>6,564,948</u>
Net assets - end of year	<u>\$ 614,018</u>	<u>\$ 5,760,071</u>	<u>\$ 6,374,089</u>

See accompanying notes to financial statements.

**KATONAH MUSEUM OF ART
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)
YEAR ENDED JUNE 30, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Direct Support			
Contributions	\$ 712,676	\$ 251,989	\$ 964,665
In-kind contributions	23,862	-	23,862
Admissions, rentals and exhibition fees	29,010	-	29,010
Retail sales	1,278	-	1,278
Program income	43,949	-	43,949
Special events revenue	376,882	-	376,882
Net direct benefit to donors	(211,433)	-	(211,433)
Net assets released from restrictions	381,680	(381,680)	-
Total Direct Support	<u>1,357,904</u>	<u>(129,691)</u>	<u>1,228,213</u>
Other Income			
Government support	51,350	-	51,350
Investment income	-	293,904	293,904
Other income	470	-	470
Total Other Income	<u>51,820</u>	<u>293,904</u>	<u>345,724</u>
Total Support and Revenue	<u>1,409,724</u>	<u>164,213</u>	<u>1,573,937</u>
FUNCTIONAL EXPENSES			
Program Services			
Exhibitions	519,681	-	519,681
Education	474,573	-	474,573
Total Program Services	<u>994,254</u>	<u>-</u>	<u>994,254</u>
Support Services			
Management and general	191,881	-	191,881
Fund development	318,303	-	318,303
Total Support Services	<u>510,184</u>	<u>-</u>	<u>510,184</u>
Total Functional Expenses	<u>1,504,438</u>	<u>-</u>	<u>1,504,438</u>
Operating (Deficit) Income	(94,714)	164,213	69,499
Loss on Disposal of Non-operating Asset	165	-	165
CHANGE IN NET ASSET (DEFICIT)	(94,879)	164,213	69,334
Net assets (deficit) - beginning of year	(344,598)	6,840,212	6,495,614
Change in accounting policy	952,948	(952,948)	-
Net assets - end of year	<u>\$ 513,471</u>	<u>\$ 6,051,477</u>	<u>\$ 6,564,948</u>

**KATONAH MUSEUM OF ART
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL EXPENSES
	Exhibitions	Education	Total	Management and General	Fund Development	Total	
Salaries	\$ 271,098	\$ 193,642	\$ 464,740	\$ 94,381	\$ 198,994	\$ 293,375	\$ 758,115
Employee benefits and taxes	20,117	34,836	54,953	32,955	39,643	72,598	127,551
Payroll and Related Expenditures	291,215	228,478	519,693	127,336	238,637	365,973	885,666
Professional fees	77,501	146,462	223,963	11,363	21,755	33,118	257,081
Utilities	16,060	7,787	23,847	5,329	1,438	6,767	30,614
Public relations, marketing and advertising	2,798	13,373	16,171	2,400	1,291	3,691	19,862
Office expenses	37,692	38,101	75,793	601	19,912	20,513	96,306
Education and program expenses	8,269	32,043	40,312	2,067	9,303	11,370	51,682
Scholarships	2,250	-	2,250	-	1,275	1,275	3,525
Exhibition expenses	97,069	-	97,069	-	-	-	97,069
Merchant and bank fees	4,806	389	5,195	836	3,185	4,021	9,216
Insurance	8,379	7,448	15,827	931	1,862	2,793	18,620
Maintenance and repairs	28,647	23,470	52,117	9,022	801	9,823	61,940
Postage, shipping and printing	11,736	11,581	23,317	4,648	1,929	6,577	29,894
Telephone, fax and internet	5,174	5,306	10,480	1,290	1,312	2,602	13,082
Bad Debt	-	-	-	50,000	-	50,000	50,000
Total expenses before depreciation	591,596	514,438	1,106,034	215,823	302,700	518,523	1,624,557
Depreciation expense	63,716	56,636	120,352	7,080	14,159	21,239	141,591
Total Functional Expenses	\$ 655,312	\$ 571,074	\$ 1,226,386	\$ 222,903	\$ 316,859	\$ 539,762	\$ 1,766,148

See accompanying notes to financial statements.

**KATONAH MUSEUM OF ART
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL EXPENSES
	Exhibitions	Education	Total	Management and General	Fund		
					Development	Total	
Salaries	\$ 208,550	\$ 206,113	\$ 414,663	\$ 84,482	\$ 219,734	\$ 304,216	\$ 718,879
Employee benefits and taxes	20,039	24,915	44,954	44,445	27,434	71,879	116,833
Payroll and Related Expenditures	228,589	231,028	459,617	128,927	247,168	376,095	835,712
Professional fees	48,375	90,167	138,542	10,974	29,822	40,796	179,338
Utilities	16,215	7,774	23,989	3,439	1,444	4,883	28,872
Public relations, marketing and advertising	-	8,628	8,628	-	675	675	9,303
Office expenses	27,900	28,616	56,516	715	14,308	15,023	71,539
Education and program expenses	4,148	33,622	37,770	2,414	11,267	13,681	51,451
Scholarships	-	11,000	11,000	-	-	-	11,000
Exhibition expenses	82,214	957	83,171	-	-	-	83,171
Merchant and bank fees	5,152	150	5,302	1,224	3,776	5,000	10,302
Insurance	8,173	8,171	16,344	911	908	1,819	18,163
Maintenance and repairs	3,745	1,621	5,366	31,895	507	32,402	37,768
Postage, shipping and printing	2,631	4,887	7,518	5,284	4,453	9,737	17,255
Telephone, fax and internet	2,657	3,011	5,668	3,289	1,166	4,455	10,123
Total expenses before depreciation	429,799	429,632	859,431	189,072	315,494	504,566	1,363,997
Depreciation expense	89,882	44,941	134,823	2,809	2,809	5,618	140,441
Total Functional Expenses	\$ 519,681	\$ 474,573	\$ 994,254	\$ 191,881	\$ 318,303	\$ 510,184	\$ 1,504,438

See accompanying notes to financial statements.

**KATONAH MUSEUM OF ART
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets (deficit)	\$ (190,859)	\$ 69,334
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	141,591	140,441
Realized and unrealized gain on investments	(72,759)	(182,324)
Pledges receivable	37,400	18,422
Inventory	237	672
Prepaid expenses	(6,924)	1,238
Accounts payable and accrued expenses	(34,445)	10,922
Deferred revenue	<u>30,444</u>	<u>20,433</u>
Subtotal	<u>95,544</u>	<u>9,804</u>
Net Cash (Used In) Provided by Operating Activities	<u>(95,315)</u>	<u>79,138</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	771,461	752,271
Purchases of investments	(590,389)	(758,139)
Purchases of property and equipment	<u>(114,974)</u>	<u>(5,057)</u>
Net Cash Provided by (Used in) Investing Activities	<u>66,098</u>	<u>(10,925)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	<u>-</u>	<u>(1,111)</u>
Net Cash Used in Financing Activities	<u>-</u>	<u>(1,111)</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(29,217)	67,102
Cash and cash equivalents - beginning of year	<u>635,858</u>	<u>568,756</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 606,641</u>	<u>\$ 635,858</u>

See accompanying notes to financial statements.

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 - OPERATIONS

The Katonah Museum of Art (the “Museum” or “Organization”), founded in 1956, originates three to four exhibitions annually covering a broad range of art and humanities topics. Offering lectures, films, workshops, concerts and other events for a general audience, the Katonah Museum of Art also presents innovative programs for over 100-member schools. The Museum’s outreach programs for the local Hispanic immigrant population are at the forefront of community-based education programs in the United States. The Katonah Museum of Art, *kunsthalle* or a non-collecting museum, is accredited by the American Association of Museums. The Museum’s programs are supported primarily by grants and contributions, fundraising activities, membership dues and program fees. Approximately 69% of the Organization’s operating income is derived from grants and contributions; 13% is from fundraising events; 6% is from program-related fees, admissions and rentals and the other 12% is from investment returns and other miscellaneous income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis

Katonah Museum of Art’s financial statements are presented on the accrual basis of accounting and in accordance with Financial Accounting Standards Board (“FASB”) guidance on reporting information regarding its financial position and activities for not-for-profit organizations. Under that guidance, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: with and without donor restrictions.

Revenue Recognition

Contributions: Contributions are recognized as net assets without donor restrictions unless their use is specifically restricted by the donor. When a donor restriction expires, the stipulated time restriction ends, or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets (deficit) as net assets released from restrictions.

Promises to Give: Unconditional promises to give are recognized as revenue in the period the promise is made and recorded as assets, or as decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Government Grants: Certain grants and contracts are on a fee-for-service basis where revenue is recognized when earned. Other grants used to pay operating expenses based on budgeted cost levels are recognized ratably over the lives of the grants. Expenditure-driven grant revenue (i.e., the Organization must first incur the expenditure as a basis for reimbursement) is recognized when the related expenditure is incurred.

Program and Other Fees: Program and other fees are recognized in the period services are performed in accordance with the terms of the contract or agreement.

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

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

- Without donor restrictions – Net assets that can be spent at the discretion of the Organization that have no donor-imposed stipulations associated with them.
- With donor restrictions – Net assets subject to donor-imposed stipulations consisting of contributions that are restricted by the donor for a specific time period or purpose.

Non-cash Contributions

A significant number of volunteers have donated their time in the furtherance of the Organization's programs and activities. However, the value of these services is not recognized in the financial statements unless the donated service received creates or enhances non-financial assets or requires specialized skills that would typically need to be purchased if not provided by contribution. In addition, the Organization receives in-kind contributions and recognizes the fair value thereof to the extent it would have purchased the merchandise.

Property and Equipment

Expenditures for property and equipment are capitalized at cost, if purchased, or at estimated fair values on dates donated. Purchases of \$1,000 or more are capitalized as incurred. Repairs and maintenance to existing facilities are expensed as incurred. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Property and equipment are depreciated using the straight-line method based on the following estimated useful lives of the assets:

Buildings	31.5 years
Improvements	7 to 39 years
Furniture and fixtures	5 to 7 years
Equipment	3 to 7 years

Investments

Katonah Museum of Art measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. An entity is required to classify certain assets and liabilities measured at fair value based on the following fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical assets or liabilities in markets that are not active, quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and may be derived from internally developed methodologies based on management's best estimates.

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Katonah Museum of Art values its investments using Level 1 and Level 3 inputs. The Organization reports investment income and gains and losses as increases or decreases in unrestricted net assets in the statements of activities and change in net assets (deficit) unless a donor or law temporarily or permanently restricts their use. Investments are managed in accordance with board-approved investment and spending policies.

Inventory

Inventories consist of gift shop items. The Organization values inventories at the lower of cost or market as determined primarily by the retail method of accounting, using the first-in, first-out ("FIFO") method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. The Organization regularly assesses these estimates and, while actual results may differ from these estimates, management believes that material changes will not occur in the near term.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the program and supporting services in reasonable ratios determined by management.

The expenses that are allocated include salaries, payroll taxes and employee benefits, which are based on the estimates of time and effort spent on direct administration or supervision of program and supporting services. Business and related costs including utilities, repairs and maintenance, insurance, depreciation and equipment contracts are allocated based on designated space. Credit card fees, printing and postage, scholarship and awards and exhibition and education are allocated based on usage where possible.

Pledges and Accounts Receivable

The Organization carries accounts receivable at cost and uses the specific write-off method for doubtful accounts. Experience and management's estimation indicate an allowance for such accounts is immaterial. On a periodic basis, the Organization evaluates its accounts receivable and whether the balances are collectible.

Advertising Costs

Advertising costs are expensed as incurred.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all dollar-denominated, highly liquid investments with maturities of three months or less when acquired to be cash equivalents.

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertainty in Income Taxes

The Organization evaluates all significant tax provisions as required by accounting principles generally accepted in the United States of America. As of June 30, 2019, the Organization does not believe that it has taken any positions that would require recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code section 501(c)(3). Contributions made to the Organization are qualified for the maximum tax deductions allowable under the United States Internal Revenue Code.

Recently Enacted Accounting Standards

FASB Accounting Standards Update ("ASU") 2016-14, "Not-for-Profit Entities" was adopted for the year ended June 30, 2019. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation. These changes had no impact on the change in net assets for the year ended June 30, 2018. Adoption of the standards resulted in a transfer of endowment deficiency of \$952,948 from net assets without donor restrictions to net assets with donor restrictions.

Reclassifications

Certain items in the June 30, 2018 financial statements have been reclassified to conform with the June 30, 2019 presentation. These reclassifications had no impact on the change in net assets for the year ended June 30, 2018.

NOTE 3 - AVAILABLE RESOURCES AND LIQUIDITY

Management monitors levels of available financial assets to anticipate cash requirements for general expenditures as obligations come due. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program activities as well as services undertaken to support those activities to be general expenditures.

Financial assets as of June 30, 2019 available for general expenditure within one year of the statement of financial position date, without donor or other restrictions limiting their use, were as follows:

Cash and cash equivalents	\$	606,641
Investments		5,038,392
Pledges receivable		73,600
Inventory		<u>1,575</u>
Total financial assets		5,720,208
Less: endowment investments		<u>(5,295,405)</u>
	\$	<u>424,803</u>

NOTE 4 - PLEDGES RECEIVABLE

The Museum raises funds for various projects and programs. Unconditional pledges receivable due within the year at June 30, 2019 and 2018 were \$73,600 and \$111,000, respectively.

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 - INVESTMENTS

The following table presents the Museum's fair value hierarchy for those investments measured at fair value as of June 30, 2019:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Financial assets:			
Equity funds	\$ 2,899,899	\$ 2,899,899	\$ -
Bond funds	1,836,283	1,836,283	-
Alternative assets	<u>302,210</u>	<u>254,306</u>	<u>47,904</u>
Total Investments	<u>\$ 5,038,392</u>	<u>\$ 4,990,488</u>	<u>\$ 47,904</u>

The following table presents the Museum's fair value hierarchy for those investments measured at fair value as of June 30, 2018:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Financial assets:			
Equity funds	\$ 2,772,134	\$ 2,772,134	\$ -
Bond funds	1,705,547	1,705,547	-
Alternative assets	<u>669,024</u>	<u>304,757</u>	<u>364,267</u>
Total Investments	<u>\$ 5,146,705</u>	<u>\$ 4,782,438</u>	<u>\$ 364,267</u>

The following table presents a reconciliation of all Level 3 assets measured at fair value for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Beginning balance, July 1	\$ 364,267	\$ 386,573
Net realized and unrealized (losses) gains	(22,410)	8,809
Capital distributions	(292,818)	(27,632)
Interest and dividends	44	474
Management fees	(1,258)	(2,971)
Other income (loss)	<u>79</u>	<u>(986)</u>
Ending Balance, June 30	<u>\$ 47,904</u>	<u>\$ 364,267</u>

The components of investment return as of June 30 are summarized as follows:

Interest and dividend income	\$ 140,124	\$ 136,354
Net realized and unrealized gains on investments	72,759	182,324
Net investment expenses	<u>(24,130)</u>	<u>(24,774)</u>
Total Investment Return	<u>\$ 188,753</u>	<u>\$ 293,904</u>

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 – INVESTMENTS (Continued)

Investments are managed in accordance with the Organization's board-approved investment and spending policies. The primary investment objective is to preserve and enhance the endowment fund by earning a competitive return from a combination of investment income and capital appreciation over the long-term without exposing the assets to undue risk.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 162,567	\$ 162,567
Building and improvements	3,939,974	3,939,419
Furniture and equipment	<u>103,712</u>	<u>412,068</u>
	4,206,253	4,514,054
Less: accumulated depreciation	<u>(3,460,860)</u>	<u>(3,742,044)</u>
Total Property and Equipment, net	<u>\$ 745,393</u>	<u>\$ 772,010</u>

The Organization wrote off \$2,393 of assets during the fiscal year ending June 30, 2018.

Depreciation expense amounted to \$141,591 and \$140,441 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Building Fund	\$ 53,257	\$ 152,022
Improvement Fund	-	5,000
Education Bus Fund	-	6,626
Betty Himmel Fund	48,000	48,000
Kai Brouard Fund	9,056	9,056
John Jay Scholarship Fund	8,451	8,451
Outreach Program	5,950	145,705
Bridge Fund	-	234,991
Sally Righter Fund	-	4,399
Beitzel Fund	-	3,853
Learning Center Fund	-	421
Education Fund	-	1,301
The Future is Now Fund	296,952	-
Other operating restrictions	-	582
Time restricted	43,000	-
Donor-restricted perpetual endowment	<u>5,295,405</u>	<u>5,431,070</u>
	<u>\$ 5,760,071</u>	<u>\$ 6,051,477</u>

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets of \$955,235 and \$381,680 were released from restrictions during the years ended June 30, 2019 and 2018, respectively, when expenses were incurred to satisfy the time and purpose restrictions specified by donors.

The Museum's board of trustees has interpreted New York's Prudent Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations, if any, to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by the NYPMIFA.

The Board recognizes that NYPMIFA created a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund's fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected as net assets with donor restrictions until appropriated.

In accordance with the NYPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund,
- 2) The purposes of the Museum and the donor-restricted fund,
- 3) General economic conditions,
- 4) The possible effect of inflation and deflation,
- 5) The expected total return from income and the appreciation of investments,
- 6) Other resources of the Museum,
- 7) The investment policies of the Museum, and
- 8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditures of the endowment fund giving due consideration to the effect that such alternatives may have on the Museum.

The Museum has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The primary emphasis of the investment policy is to grow the real value of the endowment through a diversified, volatility-managed portfolio capable of supporting spending needs. Accordingly, the investment process seeks to achieve a total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix which includes equities, fixed income, alternative investments and cash equivalents. Over a multi-year period, this mix is intended to result in an inflation-protected rate of return that has sufficient liquidity to make an annual distribution in accordance with the spending policy while growing the funds. While the Museum's goal is for the endowment spending policy to remain consistent, the Museum reassesses both its investment and spending policies annually.

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Portfolio and manager performance are reviewed quarterly during endowment committee meetings. The board has established an annual spending goal for the Museum that is expected to be no more than 5% annually, calculated based on the average of the most recent thirteen-quarter market value of the portfolio.

Changes in endowment net assets for the year ended June 30, 2019:

	<u>Perpetual Endowments</u>
Endowment net assets, beginning of year	\$ 5,431,070
Investment return:	
Investment income	140,124
Realized and unrealized gains on investment	72,759
Investment fees	<u>(24,130)</u>
Total investment return	188,753
Appropriation of endowment assets for expenditure	<u>(324,418)</u>
	<u>(135,665)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 5,295,405</u>

At June 30, 2019, funds with original gift values of \$6,248,353, fair values of \$5,295,405, and deficiencies of \$952,948 were reported in net assets with donor restrictions. During the year ended June 30, 2019, the Board of Directors appropriated \$325,000 from underwater endowment funds. These amounts were partially recovered during the year ended June 30, 2019 due to favorable market fluctuations.

Changes in endowment net assets for the year ended June 30, 2018:

	<u>Perpetual Endowments</u>
Endowment net assets, beginning of year	\$ 5,232,166
Investment return:	
Investment income	136,354
Realized and unrealized gains on investment	182,324
Investment fees	<u>(24,774)</u>
Total investment return	293,904
Contributions	250,000
Appropriation of endowment assets for expenditure	<u>(345,000)</u>
	<u>198,904</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 5,431,070</u>

**KATONAH MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

At June 30, 2018, funds with original gift values of \$6,358,195, fair values of \$5,431,070, and deficiencies of \$927,125 were reported in net assets with donor restrictions. During the year ended June 30, 2018, the Board of Directors appropriated \$345,000 from underwater endowment funds. These amounts were partially recovered during the year ended June 30, 2018 due to favorable market fluctuations.

NOTE 8 - COMMITMENTS

The Museum leases certain office equipment under operating lease agreements expiring through August 2022.

The approximate future minimum lease payments for the year ending June 30, 2019, are as follows:

	<u>Equipment</u>
2020	\$ 20,000
2021	20,000
2022	2,000
2023	300
	<u>\$ 42,300</u>

The rental expenses related to leases were \$22,594 and \$17,262 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 - CONCENTRATIONS

Financial instruments that potentially subject the Organization to a concentration of credit risk include cash accounts with various financial institutions that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. As of June 30, 2019 and 2018, the Organization had cash accounts that exceeded the FDIC insurance limits by approximately \$166,000 and \$118,000, respectively.

NOTE 10 - SIMPLE IRA PLAN

The Organization maintains a SIMPLE IRA plan under section 408(p) of the Internal Revenue Code. The plan covers all employees who are reasonably expected to receive at least \$5,000 in compensation for the calendar year. For each calendar year, the Museum will contribute a matching contribution up to a limit of 3% of the employee's compensation for the calendar year. Pension expense was \$11,110 and \$10,169 for the years ended June 30, 2019 and 2018, respectively.

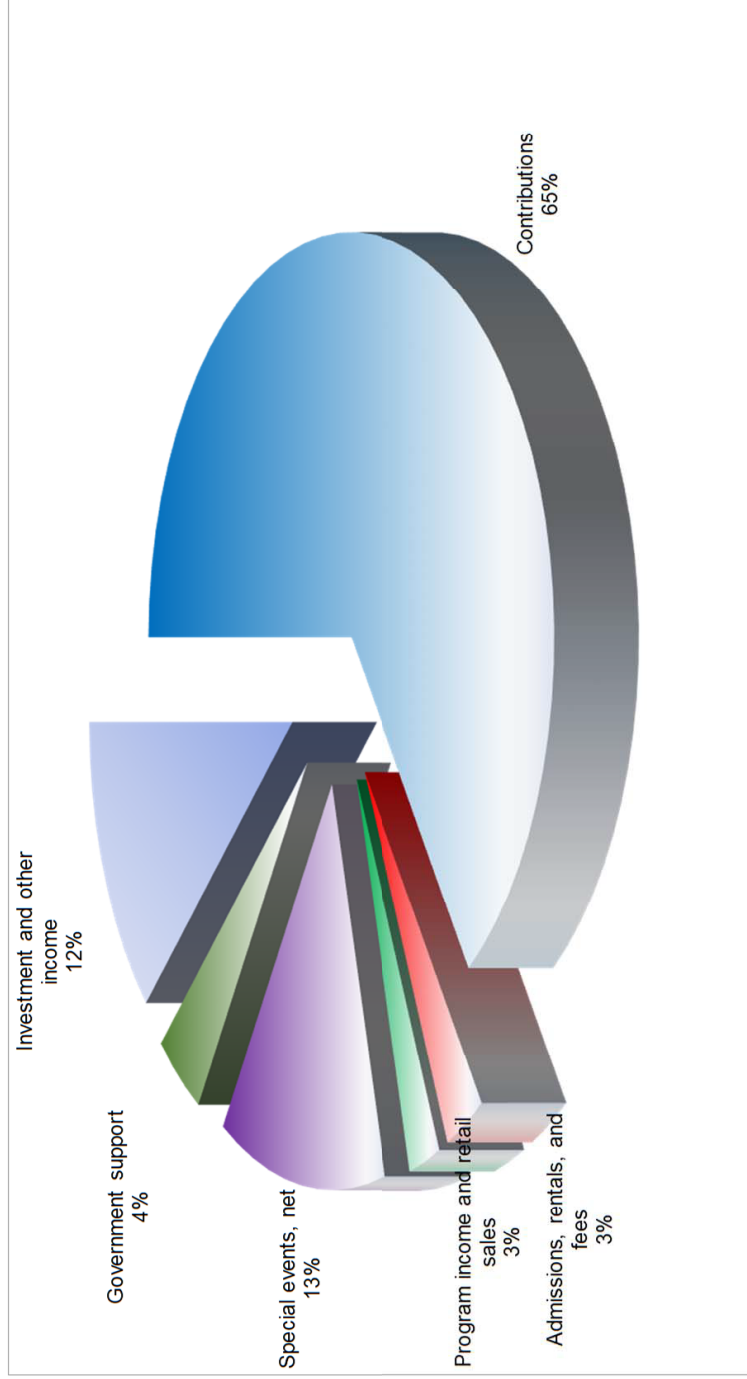
NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through December 3, 2019, the date the financial statements were available to be issued.

OTHER FINANCIAL INFORMATION

Katonah Museum of Art

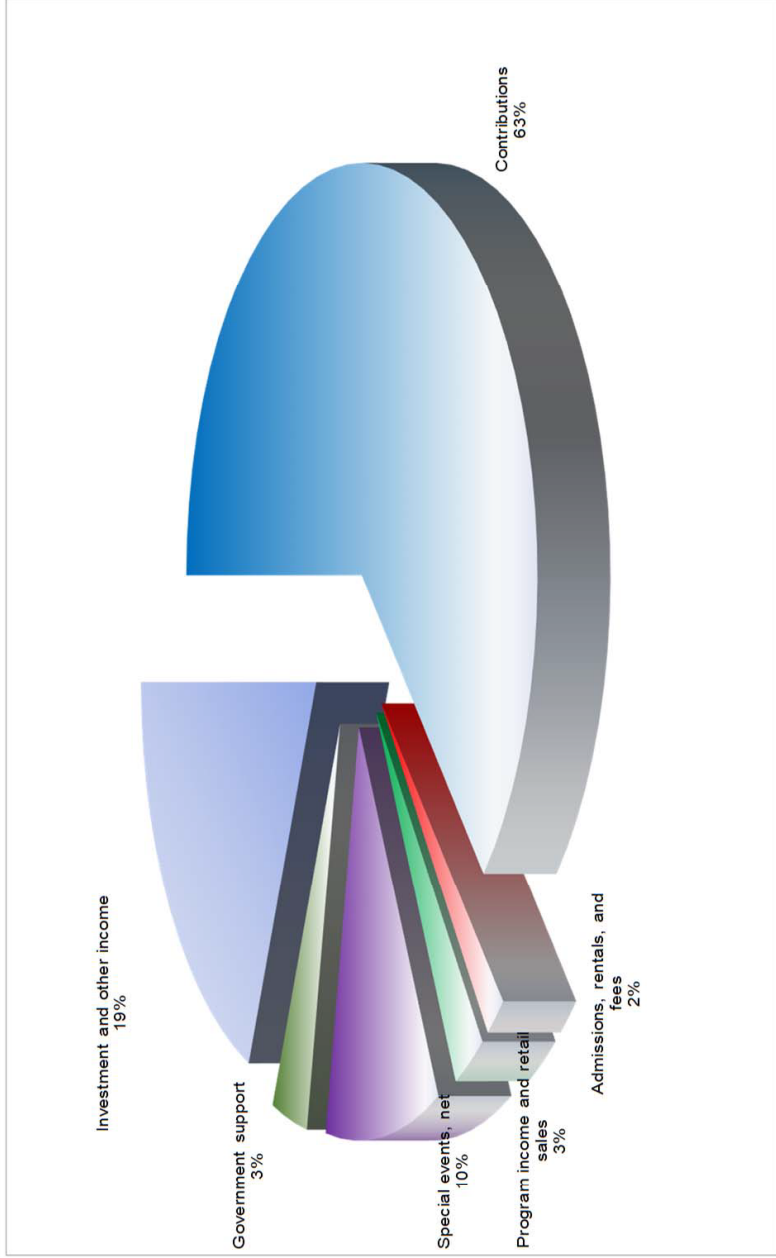
Support and Revenue Year Ended June 30, 2019



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Katonah Museum of Art

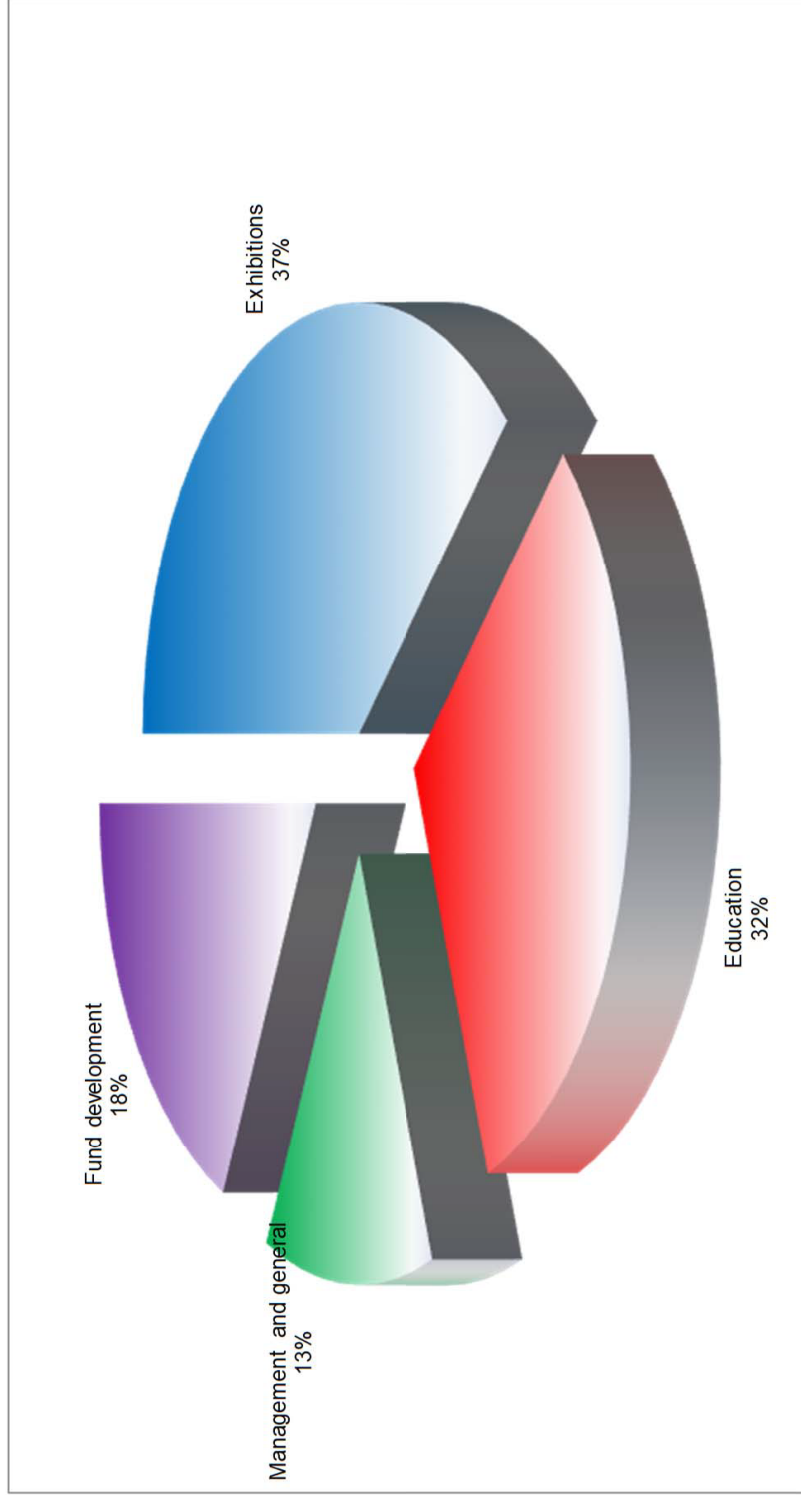
Support and Revenue Year Ended June 30, 2018



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Katonah Museum of Art

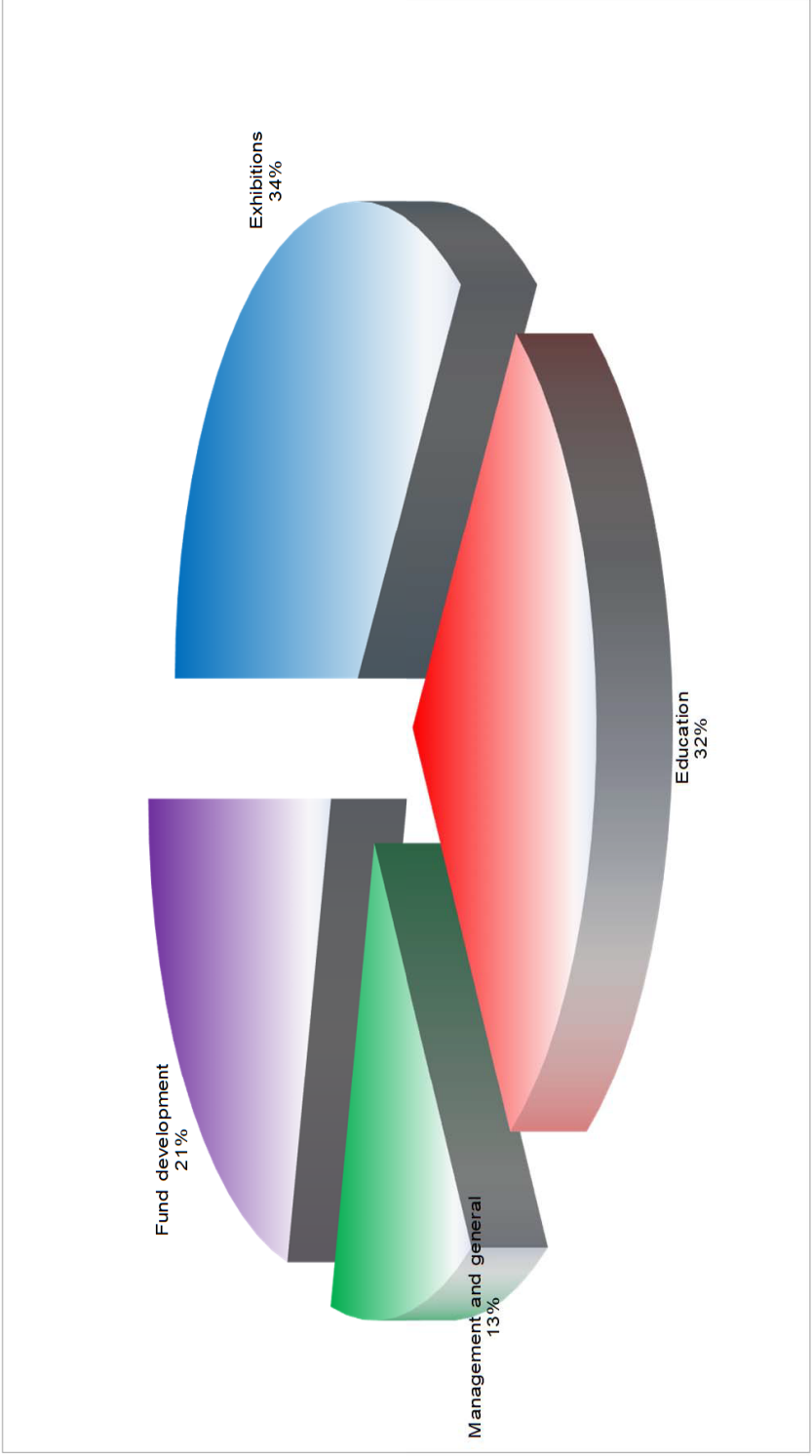
Expenses
Year Ended June 30, 2019



See independent auditors' report

Katonah Museum of Art

Expenses
Year Ended June 30, 2018



See independent auditors' report