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Maryhill Museum of Art

Financial Statements

Independent Auditor's Report

December 31, 2022



Maryhill Museum of Art

Board of Trustees and Administration Staff

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Administration

Colleen Schafroth, Executive Director
35 Maryhill Museum Drive
Goldendale, Washington 98620

Maryhill Museum of Art

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Maryhill Museum of Art
Goldendale, Washington

Opinion

We have audited the financial statements of Maryhill Museum of Art, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Maryhill Museum of Art as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Maryhill Museum of Art and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Maryhill Museum of Art's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Maryhill Museum of Art's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Maryhill Museum of Art's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Petersen CPAs & Advisors, PLLC

May 20, 2023

Maryhill Museum of Art
Statement of Financial Position
December 31, 2022

Assets

Current Assets

Cash and cash equivalents	\$ 223,577
Accounts receivable	30,142
Inventory	85,569
Total current assets	339,288

Property and Equipment (net)

11,059,859

Other Assets

Investments	2,496,886
Total other assets	2,496,886

Total Assets

\$ 13,896,033

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 67,374
Payroll liabilities	19,350
Other liabilities	100
Current portion of notes payable	8,005
Deferred membership dues	4,079
Total current liabilities	98,908

Long-Term Liabilities

Notes payable, net of current maturities	148,417
	148,417

Net Assets

Net assets without donor restrictions	11,272,215
Net assets with donor restrictions	2,376,493
Total net assets	13,648,708

Total liabilities and net assets

\$ 13,896,033

Maryhill Museum of Art
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Admissions	\$ 242,420	\$ -	\$ 242,420
Memberships	30,230	-	30,230
Merchandise and food sales	128,602	-	128,602
Contributions, pledges, and bequests	143,836	53,500	197,336
Leases and rents	302,149	-	302,149
Memorials/planned giving	4,700	-	4,700
Corporate gift/sponsorships	10,010	-	10,010
Foundation gifts/grants	36,960	75,000	111,960
Grants	43,201	-	43,201
Interest income - ERC	3,648	-	3,648
Investment income	41,065	-	41,065
Realized/unrealized loss on investments	(188,617)	-	(188,617)
Special events revenue, less direct benefit of \$74	18,024	-	18,024
Paycheck Protection Program loan forgiveness	213,073	-	213,073
Miscellaneous	1,673	-	1,673
Total revenue and support	<u>1,030,974</u>	<u>128,500</u>	<u>1,159,474</u>
Net assets released in satisfaction of restrictions	181,352	(181,352)	-
Total revenue and support	<u>1,212,326</u>	<u>(52,852)</u>	<u>1,159,474</u>
Expenses			
Program services	1,213,337	-	1,213,337
Support services	342,546	-	342,546
Total expenses	<u>1,555,883</u>	<u>-</u>	<u>1,555,883</u>
Change in Net Assets, Before Changes			
Related to Collection Items	(343,557)	(52,852)	(396,409)
Collection items purchased	(11,148)	-	(11,148)
Changes in Net Assets	<u>(354,705)</u>	<u>(52,852)</u>	<u>(407,557)</u>
Net Assets, Beginning of Year	11,408,414	2,419,345	13,827,759
Error correction	(10,000)	10,000	-
Prior Period Adjustment	228,506	-	228,506
Net Assets, End of Year	<u>\$ 11,272,215</u>	<u>\$ 2,376,493</u>	<u>\$ 13,648,708</u>

See accompanying notes to financial statements.

Maryhill Museum of Art
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services			
	Education	Exhibits	Collections	Membership
Salaries and benefits	\$ 67,129	\$ 116,663	\$ 65,009	\$ 11,044
Depreciation	-	-	-	-
Contracted services	56,890	11,773	5,369	451
Food, beverages, merchandise	5,494	564	36	29
Utilities	-	-	-	-
Supplies	15,535	10,026	1,162	750
Payroll taxes	7,056	11,716	5,965	-
Travel, meetings, training	7,794	1,512	524	-
Repairs and maintenance	399	-	172	-
Insurance	-	2,173	4,656	-
Printing and copying	2,174	1,393	-	760
Postage and shipping	239	1,325	200	317
Bank fees	-	-	-	341
Advertising	264	500	-	-
Business taxes	-	-	-	-
Miscellaneous	611	1,500	275	-
Memberships, dues, subscriptions	164	-	120	-
Licenses, permits, fees	-	-	-	-
Equipment rental	2,842	-	-	-
Security	-	352	352	-
Interest	-	-	-	-
	<u>\$ 166,591</u>	<u>\$ 159,497</u>	<u>\$ 83,840</u>	<u>\$ 13,692</u>

Program Services			Support Services		
Buildings and Grounds	Visitor Services	Subtotal	General and Administrative	Fundraising and Development	Total
\$ 92,648	\$ 59,848	\$ 412,341	\$ 57,768	\$ 70,777	\$ 540,886
377,069	-	377,069	-	-	377,069
86,381	1,490	162,354	67,678	24,373	254,405
108	46,714	52,945	3,665	-	56,610
54,904	-	54,904	10,236	-	65,140
12,092	1,111	40,676	12,553	971	54,200
8,501	4,728	37,966	5,448	5,373	48,787
2,075	1,067	12,972	5,792	1,408	20,172
9,971	1,876	12,418	17,108	-	29,526
17,957	-	24,786	6,255	-	31,041
-	118	4,445	2,184	1,521	8,150
-	608	2,689	4,714	-	7,403
-	17	358	10,345	-	10,703
-	100	864	360	13,125	14,349
9,834	26	9,860	6,940	-	16,800
-	(605)	1,781	(45)	-	1,736
-	-	284	3,974	-	4,258
654	425	1,079	454	-	1,533
-	-	2,842	1,476	-	4,318
-	-	704	2,861	-	3,565
-	-	-	5,232	-	5,232
<u>\$ 672,194</u>	<u>\$ 117,523</u>	<u>\$ 1,213,337</u>	<u>\$ 224,998</u>	<u>\$ 117,548</u>	<u>\$ 1,555,883</u>

Maryhill Museum of Art
Statement of Cash Flows
Year Ended December 31, 2022

Reconciliation of Changes in Net Assets to Net Cash

Provided by Operating Activities

Changes in net assets	\$ (407,557)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	377,069
Donated stock	2,057
Unrealized loss on investments	188,617
Paycheck Protection Program loan forgiveness	(213,073)
(Increase) decrease in assets:	
Receivables	198,364
Inventory	(26,618)
Increase (decrease) in liabilities:	
Accounts payable	56,061
Payroll liabilities	(13,955)
Taxes payable	(5)
Accrued interest payable	(2,036)
Deferred membership dues	(1,213)
Total adjustments	565,268
Net cash provided by operating activities	157,711

Cash flows from Investing Activities

Purchase of investments	(5,060,335)
Sale of investments	5,016,533
Purchase of property and equipment	(329,247)
Net cash used by investing activities	(373,050)

Cash flows from Financing Activities

Principal payments on notes payable	(10,291)
Net cash used by financing activities	(10,291)

Net Decrease in Cash and Cash Equivalents

(225,630)

Cash and Cash Equivalents, Beginning of Year

449,207

Cash and Cash Equivalents, End of Year

\$ 223,577

Non-Cash Financing Activities:

The Organization received forgiveness of Paycheck Protection Program loans in the amount of \$213,073 during the year ended December 31, 2022.

Maryhill Museum of Art
Notes to Financial Statements
December 31, 2022

Note 1 – Organization and Summary of Significant Accounting Policies:

Museum:

Maryhill Museum of Art (the Museum) is a not-for profit corporation, incorporated in the State of Washington in 1923. Maryhill Museum of Art ignites a journey of educational enrichment in the Columbia River Gorge by preserving and interpreting art and historic collections. This is accomplished through growth and stewardship of the Museum’s unique collections, cultural and natural resources, and presentation of quality exhibitions and educational programs. The Museum’s support comes primarily from admissions, membership dues, merchandise and food sales, investment income, rentals, and donor contributions.

Summary of Significant Accounting Policies:

Basis of Presentation – The Museum prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenditures are recognized when incurred.

Cash and Cash Equivalents – The Museum considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Short-term investments and restricted cash and cash equivalents not available for current use, including money market funds and certificates of deposit, are not considered to be cash equivalents for purpose of the statement of cash flows.

Investments – The Museum has adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 958. Under ASC 958, investments in marketable securities with readily determinable values, and all instruments in debt securities are reported at their fair values in the statement of activities and changes in net assets.

Inventory – Inventory consists primarily of gifts, books and educational materials and other store supplies held for sale to the public and other institutions. Inventory is stated at the lower of cost or net realizable value. The Museum determines cost principally by specific identification.

Collections – Collections consist of artwork, artifacts, and books all with historical significance, and are held for educational, exhibit, research, and curatorial purposes. In conformity with industry practice, the Museum does not capitalize its collections in the accompanying statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired and as net assets with donor restrictions if the assets used to purchase the items are restricted by the donors. Proceeds from de-accessions or insurance recoveries are reflected as increases in the appropriate net asset category and are to be exclusively used for the acquisition and direct care of the permanent collection items. Direct care includes preventive care and conservation of the collections.

The Museum employs a full-time employee to manage stewardship of the artifacts and collection, under the direction of the Executive Director and Board of Trustees. Each piece is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

Maryhill Museum of Art
Notes to Financial Statements
December 31, 2022

Note 1 - Organization and Summary of Significant Accounting Policies (continued):

Property and Equipment – Property and equipment are stated at cost. The Museum capitalizes the cost of property and equipment with an estimated useful life in excess of one year. Donated fixed assets are recorded at estimated fair market value on the date donated. Depreciation is recorded on fixed assets using the straight-line method over the estimated useful lives of the assets, from 5 to 48 years. When items are retired, sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in operations. The cost of maintenance and repairs is charged to expense when incurred.

Revenue and Revenue Recognition – The Museum recognizes revenue from ticket sales at the time of admission. Membership dues, which are nonrefundable, are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total dues paid and the exchange element. The Museum recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately. The Museum records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The Museum recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Revenues from auxiliary activities primarily include sales from the Museum’s store and café and are recognized on receipt.

Classification of Net Assets – The Museum reports information regarding its financial position and activities according to two classes of net assets: Net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to or no longer subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of donor restrictions on the net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Federal Income Tax – The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Museum follows FASB ASC Section 740, which clarifies the uncertainty in income taxes. Management has evaluated the Museum’s tax positions and has concluded that the Museum has taken no uncertain tax positions that require adjustments to the financial statements, or that call into question the Museum’s tax status.

Advertising Costs – The Museum charges advertising costs to expenses as incurred. Advertising expense for the year ended December 31, 2022 was \$14,349.

Maryhill Museum of Art
Notes to Financial Statements
December 31, 2022

Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Functional Expense Allocation – The costs of providing the Museum’s various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services benefited based on management’s estimates of costs associated with the various activities.

Contributed Services – The Museum receives a significant amount of donated services from a variety of unpaid volunteers assisting in program operations. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum. The Museum recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of donation. A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum’s programs, collections, exhibitions, membership, and marketing, which are not recognized because their services do not meet the recognition criteria.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncement – During the year ended December 31, 2022, the Museum adopted the requirements of Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). This standard requires lessees to recognize leases on the statement of financial position as right-of-use (ROU) assets and lease liabilities based on the value of the discounted future lease payments, while lessor accounting will remain substantially unchanged. The standard requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. In adopting ASC 842, the Museum elected to use practical expedients, including but not limited to, not reassessing past lease and easement accounting, and not recording assets or liabilities for leases with terms of one year or less. Adoption of ASU No. 2016-02 did not have an impact on the financial statements of the Museum for the year ended December 31, 2022.

During the year ended December 31, 2022, the Museum also retrospectively adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, issued by the FASB. The pronouncement was issued to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU No. 2020-07 does not change the existing recognition and measurement requirements for contributed nonfinancial assets. The new standard requires that contributed nonfinancial assets are presented separately in the statement of activities and changes in net assets. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. Adoption of ASU No. 2020-07 did not have an impact on the financial statements of the Museum for the year ended December 31, 2022.

Maryhill Museum of Art
Notes to Financial Statements
December 31, 2022

Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Museum recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Museum’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements were available to be issued.

The Museum has evaluated subsequent events through May 20, 2023, which is the date the financial statements were available to be issued.

Note 2 – Investments and Fair Value Measurements:

The Museum’s investments consisted of the following at December 31, 2022:

Description	Cost	Accumulated Unrealized Gain (Loss)	Fair Value	Fair Value % of Total Assets
Money Accounts/CD's	\$ 513,964	\$ (7,921)	\$ 506,043	3.6%
Equities	1,158,165	(145,275)	1,012,890	7.3%
Government securities	567,464	(898)	566,566	4.1%
Corporate bonds	59,739	(5,996)	53,743	0.4%
Mutual Funds	224,039	133,605	357,644	2.6%
Total	<u>\$ 2,523,371</u>	<u>\$ (26,485)</u>	<u>\$ 2,496,886</u>	<u>18.0%</u>

FASB ASC Section 820 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Section 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

Level 2 – Inputs to the valuation methodology include:

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

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Maryhill Museum of Art
Notes to Financial Statements
December 31, 2022

Note 2 – Investments and Fair Value Measurements (continued):

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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets stated at fair value. There were no changes to the methodologies used during the year ended December 31, 2022.

Level 1 – Certificates of deposit, money market funds, mutual funds, government securities, corporate bonds, and equities are valued at the closing price reported in the active market in which the individual securities are traded. The fair value of the mutual funds is based on quoted net asset values of the shares held by the Museum at year end.

Level 2 – The Museum had no investments that are classified as Level 2 at December 31, 2022.

Level 3 – The Museum had no investments that are classified as Level 3 at December 31, 2022.

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

Fair value measurements for investments reporting on a recurring basis at December 31, 2022 were as follows:

	Level 1	Level 2	Level 3	Total
Money Accounts/CD's	\$ 506,043	\$ -	\$ -	\$ 506,043
Equities	1,012,890	-	-	1,012,890
Government securities	566,566	-	-	566,566
Corporate bonds	53,743	-	-	53,743
Mutual Funds	357,644	-	-	357,644
Total	<u>\$ 2,496,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,496,886</u>

Note 3 – Endowment Funds:

The endowment consists of funds established to support specific purposes. The Museum classifies and reports net assets associated with endowment funds based on the existence or absence of donor-imposed restrictions. The donors of the permanently restricted endowment fund have stipulated the principal must be maintained intact in perpetuity.

Interpretation of Relevant Law

The Board of Trustees of the Museum has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 (expect as discussed in the Spending Policy below).

Maryhill Museum of Art
Notes to Financial Statements
December 31, 2022

Note 3 – Endowment Funds (continued):

As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund (except as discussed in the Spending Policy below).

Any earnings from the investments, including realized and unrealized gains or losses, are unrestricted and may be used for any purpose designated by management.

In accordance with UPMIFA, 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 funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investment, (6) other resources of the Museum, and (7) the Museum's investment policies.

Return Objectives and Risk Parameters

The Board of Trustees originally adopted, in 2005, an Endowment and Reserve Policy (the Policy) outlining the goals and processes for funding, accounting for, and use of endowments and reserve funds. The Policy has been continuously updated, with the most recent revision in 2021.

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner consistent with the primary focus, which is to preserve endowment capital and its purchasing power, while providing a 5% distribution to support the ongoing operations of the Museum.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The investment strategy emphasizes total return; that is the aggregate return from capital appreciation, dividend income, and interest income. The Museum's goal is to exceed a 6% rate of return.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum's spending will be targeted at 5% of the average three-year portfolio value as described in the endowment policy. The endowment policy stipulates that these appropriations can be withdrawn from the principal balance of the endowment to the extent that the endowment's income is insufficient to fund the mission or purpose of the endowment. Any appropriations in excess of the investment earnings are considered to be a release of endowment corpus based on management's interpretation of the terms set forth in the endowment agreement.

Maryhill Museum of Art
Notes to Financial Statements
December 31, 2022

Note 3 – Endowment Funds (continued):

In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to earn an average annual minimum 5% plus the change in the Consumer Price Index. This is consistent with the Museum’s objective to maintain the purchasing power of the endowment assets held in perpetuity.

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 the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. Such deficiencies may result from unfavorable market fluctuations or continued appropriation for certain programs that were deemed prudent by the Board of Trustees. There were no deficiencies of this nature as of December 31, 2022.

The composition of endowment net assets as of December 31, 2022 is as follows:

Donor-restricted endowment funds:	
Permanently restricted	<u>\$ 2,172,387</u>

Changes in endowment net assets as of December 31, 2022 are as follows:

Endowment Net Assets - beginning of year	\$ 2,082,387
Contributions	90,000
Investment income	-
Net appreciation	-
Program expenditures	-
Endowment Net Assets - end of year	<u>\$ 2,172,387</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2022:

Without donor restrictions:	
Investment income	\$ 41,065
Net loss on investments	<u>(188,617)</u>
Total investment loss	<u>\$ (147,552)</u>

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Note 4 –Property and Equipment:

Property and equipment consisted of the following at December 31, 2022:

Depreciable assets:	
Buildings	\$ 14,235,410
Furniture, fixtures, & equipment	667,820
Water system	1,089,539
Roads and fences	507,986
Rental buildings and roads	145,669
Stonehenge	38,537
Total depreciable assets	16,684,961
Less: accumulated depreciation	5,848,383
	10,836,578
Land	181,406
Construction in progress	41,875
Total net property and equipment	\$ 11,059,859

Depreciation expense for the year ended December 31, 2022 was \$377,069.

Note 5 – Leases:

The Museum adopted ASC 842, Leases, effective January 1, 2022. Refer to Note 1 for further discussion of the impact of adoption. The Museum determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. All leases are recorded on the statements of financial position except for leases with an initial term less than 12 months for which the Museum made the short-term lease election. The Museum has an obligation as a lessee for a postage machine with a remaining term of less than 12 months which has been reflected on the statement of activities and changes in net assets as of December 31, 2022. Total expense during the year ended December 31, 2022 was \$1,476.

The Museum is the lessor of certain real estate used primarily for agricultural purposes under various leases that are accounted for as operating leases. The cost of the land leased is listed above in the notes to property, buildings and equipment. The Museum also receives income from wind power development of their property. The Museum’s policy is to record contingent rental income during the period it is earned. Total operating and contingent rental income for 2022 aggregated \$302,149. Future minimum operating and contingent rental income for succeeding fiscal years are as follows:

Years Ending December 31,		
2023	\$	247,500
2024		243,000
2025		239,000
2026		239,000
2027		4,000
Thereafter		8,000
	\$	980,500

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Note 6 – Tax Deferred Annuity Program:

The Museum offers a tax deferred annuity program that is available to all salaried employees after a minimum employment period. Employees may contribute up to 20 percent of their qualified wages subject to ceiling prescribed by law. The Museum contributes between 3 and 5 percent of the employees' gross annual salaries. During the year ended December 31, 2022, the Museum contributed \$10,849 to the program.

Note 7 – Revenue from Contracts with Customers:

The following table provides information about significant changes in the contract liabilities for the year ended December 31, 2022:

Deferred membership dues, beginning of year	\$ 5,292
Revenue recognized that was included in deferred membership dues at the beginning of year	(5,292)
Increase in deferred revenue due to cash received during the period	4,079
Deferred membership dues, end of year	<u><u>\$ 4,079</u></u>

Note 8 – Notes Payable:

Notes payable consisted of the following:

Note payable to Kubota, non-interest bearing, with monthly principal payments of \$575, maturing April, 2023	\$ 2,302
Note payable to U.S. Small Business Administration, bearing interest at 2.75%, with monthly principal and interest payments of \$641, beginning July, 2021, maturing June, 2051	148,229
	<u>150,531</u>
Less current maturities	(5,656)
	<u><u>\$ 144,875</u></u>

Future maturities of long-term debt are as follows:

Years Ending December 31,		
2023	\$	5,656
2024		3,755
2025		3,860
2024		3,967
2025		4,078
Thereafter		129,215
	\$	<u><u>150,531</u></u>

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Note 9 – Paycheck Protection Program Loans:

On May 2, 2020, the Museum received a loan from Bank of America in the amount of \$126,085 under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated May 2, 2020 and may be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. The loan bears interest at a rate of 1%, and monthly principal and interest installments are deferred until the loan is determined to be forgiven, either in whole or in part. During the year ended December 31, 2022, the Museum received partial forgiveness of this loan in the amount of \$118,583 (principal and interest). The remaining amount of the loan (\$7,503) was not forgiven and payments of \$210 were required starting May, 2022, maturing in May, 2025. The balance outstanding as of December 31, 2022 was \$5,891.

Future maturities of PPP loan are as follows:

Years Ending December 31,		
2023	\$	2,349
2024		2,495
2025		1,046
	\$	<u>5,890</u>

On February 10, 2021, the Museum received a loan from Bank of America in the amount of \$94,490 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated February 10, 2021 and may be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. The loan bears interest at a rate of 1%, and monthly principal and interest installments are deferred until the loan is determined to be forgiven, either in whole or in part. During the year ended December 31, 2022, the Museum received full forgiveness of this loan.

Note 10 – Net Assets Without Donor Restrictions:

From net assets without donor restrictions of \$11,243,978, the Board of Trustees has designated a quasi-endowment of \$32,490 as of December 31, 2022.

Board-designated quasi-endowment	\$	32,490
Undesignated		<u>11,239,725</u>
Total net assets without donor restriction	\$	<u>11,272,215</u>

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Note 11 – Net Assets With Donor Restrictions:

Net assets with donor restrictions are restricted for the following purposes at December 31, 2022:

Subject to expenditure for specified purpose:	
Educational programs, exhibits, and collections	\$ 204,106
Subtotal	204,106
Investment in perpetuity	2,172,387
Total net assets with donor restrictions	\$ 2,376,493

Note 12 – Commitments:

In 2011 the Museum entered into an agreement with the Washington Department of Commerce wherein it conveyed a deed of trust to Commerce as a condition of receiving certain grant funds. Under this agreement Commerce holds a deed of trust on Maryhill Museum of Art real property for a period of 10 years from the date of the final payment of grant funds (June 20, 2013). Upon satisfaction of the ten-year term requirement and all other grant terms and conditions, Commerce will take appropriate action to reconvey the deed of trust. A modification of the deed of trust was made on August 9, 2016, due to the receipt of additional grant funds for a capital project.

Note 13 - Liquidity:

The following table reflects the Museum’s financial assets as of December 31, 2022, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as board-designated assets. The designations could be drawn upon if the Board approves that action.

Financial assets:	
Cash and cash equivalents	\$ 223,577
Accounts receivable	30,142
Inventory	85,569
Financial assets at year end	339,288
Financial assets available to meet cash needs for general expenditures within one year	
	\$ 339,288

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Note 13 – Liquidity (continued):

The Museum’s goal is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The balance of the board-designated quasi-endowment fund intended by the Board of Trustees to be used for future operational needs. However, the Board of Trustees may release a portion of the fund if there is a liquidity need.

Note 14 – Prior Period Adjustment:

The CARES Act provides an employee retention credit (“CARES Employee Retention credit”), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expand the qualified wage caps on these credits through December 31, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to \$10,000 of qualified wages per quarter. The Museum qualified for the tax credit under the CARES Act for qualified wages through December 31, 2021. During the years ended December 31, 2021 and 2020, the Museum received \$184,778 (including \$2,464 of interest) and \$47,377 (including \$1,184 of interest), respectively, related to the CARES Employee Retention credit. To record the CARES Employee Retention credit, the Museum made a prior-period adjustment that increased accounts receivable and net assets without donor restrictions, each in the amount of \$228,506 (amount received less interest). The interest earned on the CARES Employee Retention Credit of \$3,648 has been included as interest income-ERC on the statement of activities and changes in net assets for the year ended December 31, 2022.

Note 15 – Correction of an Error:

During the year ended December 31, 2022, management determined that a restricted donation for education received in December 31, 2021, was not reflected as net assets with donor restrictions on the statement of activities and changes in net assets for the year ended December 31, 2021. Therefore, a reclassification was made to increase net assets with donor restrictions by \$10,000 and reduce net assets without donor restrictions by \$10,000. These reclassifications had no effect on total net assets for the year ended December 31, 2022. The changes have been reflected on the statement of activities and changes in net assets. These funds were not expended as of December 31, 2022 and remain restricted.