



REYNOLDA HOUSE, INC.

Financial Statements

June 30, 2019

(With Independent Auditors' Report Thereon)

REYNOLDA HOUSE, INC.

Board of Directors (2018–2019)

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Founding President
New York, New York

Welborn Alexander
Winston-Salem, North Carolina

Endia Beal
Winston-Salem, North Carolina

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Winston-Salem, North Carolina

Susan K. Conger
Winston-Salem, North Carolina

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Winston-Salem, North Carolina

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Winston-Salem, North Carolina

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Winston-Salem, North Carolina

Dr. Laura Gerald
Winston-Salem, North Carolina

Nadine D. Hall
Lewisville, North Carolina

Sue L. Henderson
Winston-Salem, North Carolina

John W. Hoemann
Winston-Salem, North Carolina

Anna Warburton Munroe
Winston-Salem, North Carolina

T. David Neill
Winston-Salem, North Carolina

Stuart C. Parks
Winston-Salem, North Carolina

Stacy J. Petronzio
Winston-Salem, North Carolina

Scott H. Richardson
Winston-Salem, North Carolina

Cyndi Skaar
Winston-Salem, North Carolina

Kim Stogner
Winston-Salem, North Carolina

Gwynne S. Taylor
Winston-Salem, North Carolina

Wallace C. Wu
Winston-Salem, North Carolina

Ex Officio

Chair, Docent – Volunteer Board
Ann Rudkin
Winston-Salem, North Carolina

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Vice President & Treasurer
T. David Neill

Secretary
Anna Warburton Munroe

President of Wake Forest
University
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REYNOLDA HOUSE, INC.

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KPMG LLP
Suite 400
300 North Greene Street
Greensboro, NC 27401

Independent Auditors' Report

To the Board of Directors
Reynolda House, Inc.:

We have audited the accompanying financial statements of Reynolda House, Inc., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year 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 U.S. generally accepted accounting principles; 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 financial statements referred to above present fairly, in all material respects, the financial position of Reynolda House, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Reynolda House, Inc. adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*; ASU 2014-09, *Revenue from Contracts with Customers*; and ASU 2018-08, *Not-for-Profit Entities, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, during the year ended June 30, 2019. Our opinion is not modified with respect to these matters.



Report on Summarized Comparative Information

We have previously audited Reynolda House, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. As part of our audit of the 2019 financial statements, we also audited adjustments described in Note 1 that were applied to adopt ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, retrospectively in the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

Greensboro, North Carolina
November 6, 2019

REYNOLDA HOUSE, INC.

Statement of Financial Position

June 30, 2019

(with comparative information as of June 30, 2018)

Assets	2019	2018
Cash	\$ 2,107,441	1,689,193
Accounts receivable	10,677	15,106
Grants receivable	—	130,328
Contributions receivable, net (notes 3 and 8)	41,191	173,208
Investments (notes 4 and 10)	31,224,409	31,594,946
Investments in real estate	—	540,000
Land, buildings and equipment, net (note 5)	9,023,176	9,461,327
Other assets	204,951	171,650
Total assets	\$ 42,611,845	43,775,758
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 118,454	181,492
Other liabilities and deferrals	247,317	151,906
Due to Wake Forest University (note 8)	149,119	302,868
Total liabilities	514,890	636,266
Net assets:		
Without donor restrictions:		
Undesignated	10,600,479	11,037,975
Designated for:		
Long-term investment (note 7)	23,965,440	24,265,959
Maintenance reserve	156,508	225,939
	34,722,427	35,529,873
With donor restrictions (notes 6 and 7)	7,374,528	7,609,619
Total net assets	42,096,955	43,139,492
Total liabilities and net assets	\$ 42,611,845	43,775,758

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.

Statement of Activities

Year ended June 30, 2019

(with summarized comparative financial information for the year ended June 30, 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue, gains and other support:				
Grants and contributions (notes 3 and 8)	\$ 1,221,002	20,914	1,241,916	2,489,249
Grants from Wake Forest University (note 8)	405,000	—	405,000	505,000
Admissions and sales	368,894	—	368,894	771,966
Program income	70,206	—	70,206	77,243
Net investment results	1,042,538	315,429	1,357,967	1,844,003
Other	120,147	—	120,147	124,598
Net assets released from restrictions (note 6)	571,434	(571,434)	—	—
Total revenue, gains and other support	<u>3,799,221</u>	<u>(235,091)</u>	<u>3,564,130</u>	<u>5,812,059</u>
Expenses:				
Program services	3,430,051	—	3,430,051	4,597,605
Management and general (note 8)	614,571	—	614,571	535,586
Development and fund-raising	572,045	—	572,045	829,040
Total expenses	<u>4,616,667</u>	<u>—</u>	<u>4,616,667</u>	<u>5,962,231</u>
Gain(loss) on real estate	<u>10,000</u>	<u>—</u>	<u>10,000</u>	<u>(430,000)</u>
Change in net assets	(807,446)	(235,091)	(1,042,537)	(580,172)
Net assets at the beginning of the year	<u>35,529,873</u>	<u>7,609,619</u>	<u>43,139,492</u>	<u>43,719,664</u>
Net assets at the end of the year	<u>\$ 34,722,427</u>	<u>7,374,528</u>	<u>42,096,955</u>	<u>43,139,492</u>

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.

Statement of Cash Flows

Year ended June 30, 2019

(with comparative information as of June 30, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (1,042,537)	(580,172)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	587,235	535,337
(Gain) loss on real estate	(10,000)	430,000
Net realized and unrealized gains on investments	(1,348,107)	(1,834,447)
Noncash gifts	(18,925)	(28,075)
Changes in operating assets and liabilities:		
Accounts receivable	4,429	(698)
Grants receivable	130,328	(100,231)
Contributions receivable	132,017	173,506
Other assets	(14,462)	142,418
Accounts payable and accruals	(78,698)	36,317
Other liabilities and deferrals	95,411	(467,828)
Due to Wake Forest University	(153,749)	(4,383)
Net cash used in operating activities	(1,717,058)	(1,698,256)
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(133,424)	(232,598)
Proceeds from sale of real estate	550,000	—
Purchases of investments	(30,482)	(919,115)
Proceeds from sales and maturities of investments	1,749,212	1,805,005
Net cash provided by investing activities	2,135,306	653,292
Cash flows from financing activity:		
Proceeds from private gifts restricted for capital and long-term investment	—	35,795
Net change in cash	418,248	(1,009,169)
Cash at beginning of year	1,689,193	2,698,362
Cash at end of year	\$ 2,107,441	1,689,193
Supplemental disclosures of cash flow information:		
Noncash gifts of stock	\$ 86	28,075
In-kind contributions	18,839	—
Capital expenditures in accounts payable	15,660	—

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.
Notes to Financial Statements
June 30, 2019

(1) Organization and Summary of Significant Accounting Policies

Description of Reynolda House, Inc.

Reynolda House, Inc. (Reynolda House) is a nonprofit corporation organized under the laws of the State of North Carolina for the purpose of preserving and interpreting an American country home and a premier collection of American art. Through innovative public programs and exhibitions, Reynolda House offers a deep understanding of American culture to diversified audiences.

Reynolda House's Board of Directors is elected by Wake Forest University (WFU). Therefore, Reynolda House's accounts are included in WFU's consolidated financial statements. See note 8 for further information regarding transactions between Reynolda House and WFU.

On October 18, 2013, Wake Forest University's Board of Trustees approved the creation of Verger Capital Management LLC (VCM), of which the University is the controlling and majority member, to provide investment management services for the WFU investment pool. On August 22, 2014, Reynolda House's interest in the WFU investment pool started the transition to be invested in Verger Fund II (VFII) under the management of VCM. As of June 30, 2019, 99% of Reynolda House's interest in the WFU Investment pool had transitioned to VFII.

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis.

(b) Recent Accounting Standards

Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)*. This ASU changes certain presentation requirements for not-for-profit entities' financial statements in an effort to make information more meaningful for users. This ASU removes the requirement to distinguish between resources with temporary and permanent restrictions on the face of the financial statements and replaces this with a requirement to present two classes of net assets – with and without donor restrictions. Additionally, the ASU requires expenses to be presented by their natural and functional classifications. The guidance also requires that investment returns be presented net of external and direct internal investment expenses and eliminates the requirements for disclosures of the components of investment returns. Further, the ASU requires additional qualitative and quantitative disclosures about liquidity and availability of financial assets. Reynolda House adopted ASU 2016-14 on July 1, 2018 and has adjusted the presentation of the financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

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Notes to Financial Statements
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The reclassification of net assets driven by the adoption of ASU 2016-04 as of June 30, 2018 is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
As previously presented:			
Unrestricted	\$ 33,566,787	—	33,566,787
Temporarily restricted	—	740,588	740,588
Permanently restricted	—	8,832,117	8,832,117
Net assets, prior year	33,566,787	9,572,705	43,139,492
Reclassifications – ASU 2016-04:			
Underwater endowments	1,963,086	(1,963,086)	—
Net assets, adjusted	<u>\$ 35,529,873</u>	<u>7,609,619</u>	<u>43,139,492</u>

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes 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. Reynolda House adopted ASU 2014-09 on July 1, 2018.

Reynolda House performed an analysis of revenue streams and transactions under ASU 2014-09, including applying the portfolio approach as a practical expedient to group contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. The impact of adopting ASU 2014-09 was not material to total revenues without donor restrictions, excess of revenues and gains over expenses and losses, or total net assets. Reynolda House revenue recognition policies are detailed within note 1.

In June 2018, the FASB issued ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and accounting guidance for contributions received and made and assists entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not for Profit Entities, or as exchange transactions subject to other guidance, and in determining whether a contribution is conditional. Reynolda House adopted ASU 2018-08 on July 1, 2018.

Not Yet Adopted

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP, which have terms of greater than 12 months. This ASU defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. This ASU retains a distinction between finance leases and operating leases. The result of retaining a distinction between finance

REYNOLDA HOUSE, INC.

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leases and operating leases in the statement of operations and the statement of cash flows is largely unchanged from previous GAAP. ASU 2016-02 is effective for fiscal year 2020. Management is evaluating the impact of ASU 2016-02 on the financial statements.

(c) Basis of Presentation

Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Reynolda House and changes therein are classified and reported as follows:

- *Net Assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. Reynolda House’s Board of Directors has designated a portion of the unrestricted net assets for long-term investment and maintenance.
- *Net Assets with donor restrictions* – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Reynolda House and/or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity; generally, the donors of these assets permit Reynolda House to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Donor-restricted contributions are reported as increases in net assets with donor restrictions. Contributions which impose restrictions that are met in the same fiscal year they are received are reported as increases in net assets without donor 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, respectively, in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

(d) Cash

At June 30, 2019 and 2018, Reynolda House had bank and other deposits that exceeded federally insured limits. Reynolda House has not experienced any financial loss on such balances and does not believe it is exposed to any significant credit risk on its cash balances.

(e) Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year, net of an allowance for uncollectible contributions receivable, are discounted to their present value at a risk-adjusted rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible

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June 30, 2019

contributions receivable is provided based upon management's judgment, based on such factors as prior collection history, type of contribution and nature of fund-raising activity.

(f) Investments

Investments are reported at fair value on the statement of financial position. Because of the inherent uncertainty in the use of estimates, nonreadily determinable fair values that are based on estimates may differ from the values that would have been used had a ready market for the investments existed. Investments include units purchased in the VFII. Investment in the VFII is reported at estimated fair value based upon the unit value, which is equivalent to net asset value.

(g) Investments in Real Estate

Investments in real estate is comprised of property donated in 2003 and is valued at the lower of net book value or market. In 2019, the Board elected to hold the real estate for sale so the asset was transferred into an investment in real estate at the fair market value of the asset. Real estate gifts held for sale are recorded at fair value, based on periodic external appraisals.

(h) Fair Value Measurements

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). A financial instrument'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. The three levels of the fair value hierarchy are described below:

Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities are determined through direct or indirect observations other than quoted market prices.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions.

(i) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost at date of acquisition or estimated fair value on the date received for donated items. Depreciation is calculated on a straight-line basis over the estimated useful life of each class of depreciable asset. Estimated lives range from 3 to 40 years. Depreciation is not calculated on land and construction in progress. Gains or losses on the disposal of land, buildings, and equipment are included in the statement of activities.

(j) Impairment of Long-Lived Assets

Reynolda House periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held for sale, impairment is determined to exist if

REYNOLDA HOUSE, INC.
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estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Reynolda House did not incur any impairment loss on real estate for the year ended June 30, 2019. Reynolda House incurred an impairment loss for the year ended June 30, 2018.

(k) Other Assets

Other assets include museum store inventory, prepaid expenses and other assets. Inventories consisting of primarily prints, books and catalogues are valued at cost on a first-in, first-out basis, which is not in excess of fair value.

(l) Works of Art and Historical Treasures

Reynolda House has various works of art and historical treasures (approximately 4,250 items), which include the original Reynolda House (approximately 30,000 square feet) and its contents, as well as paintings and other items subsequently acquired. In accordance with accounting for contributions, an entity need not recognize such items in its financial statements if the items are added to collections held for public exhibition, education, or research in furtherance of public service rather than financial gain. If purchased, the collection items are expensed, and if donated, they are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The works of art and historical treasures are subject to a policy that requires proceeds from their sales to be used to acquire other items for works of art and historical treasures. Reynolda House's paintings are cataloged for educational, research, scientific, and curatorial purposes, and activities verifying their existence and assessing their condition are performed on an ongoing basis. There were no proceeds from sale of collection items or proceeds from insurance recoveries of collection items, and there were no purchases of collection items in fiscal year 2019 or 2018.

(m) Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of buildings and equipment, allowance for contributions receivable, and valuation of investments.

(n) Functional Expense Classification

Expenses are reported in the statement of activities based on their functional categories. Reynolda House reports expenses as program services, management and general, and development and fund-raising, which are incurred in support of program services.

(o) Income Taxes

Reynolda House is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is recorded in the financial statements. If applicable, unrelated business income is reported on IRS Form 990-T. Fiscal years ending on or after June 30, 2016 remain subject to income tax examinations. Management

REYNOLDA HOUSE, INC.
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evaluated Reynolda House's tax positions and concluded that Reynolda House had taken no uncertain tax positions that require adjustment to the financial statements as of June 30, 2019 and 2018.

(p) Comparative Financial Information

The financial statements include certain prior year information for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Reynolda House's financial statements for the year ended June 30, 2018 from which this information was derived.

(2) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2019 are as follows:

Cash and cash equivalents	\$	2,107,441
Accounts receivable, net		10,677
Investments available to be liquidated		<u>1,725,091</u>
Total financial assets available within one year	\$	<u><u>3,843,209</u></u>

As part of the Museum's liquidity management, it administers its financial assets to be available as its operating expenditures, liabilities, and other obligations come due. Additionally, Reynolda House has board-designated endowment funds of \$23,965,440 at June 30, 2019. Although Reynolda House does not intend to spend from the board-designated endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts from the board-designated endowment funds could be made available subject to certain lock-up provisions that reduce the total investments that could be made available if necessary.

(3) Contributions Receivable

The following is an analysis of the maturities of Reynolda House's contributions receivable at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
One year or less	\$ 34,923	172,828
Between one and five years	<u>7,600</u>	<u>1,425</u>
Gross contributions receivable	42,523	174,253
Less estimated uncollectible amounts	1,126	1,013
Less discount at rates ranging from 1.22%–2.51%	<u>206</u>	<u>32</u>
Contributions receivable, net	<u><u>\$ 41,191</u></u>	<u><u>173,208</u></u>

Included in contributions receivable are gross contributions receivable totaling approximately \$20,000 from one donor at June 30, 2019 and \$154,000 from two donors at June 30, 2018.

REYNOLDA HOUSE, INC.
Notes to Financial Statements
June 30, 2019

(4) Investments

Investments at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Investment in VFII	\$ 31,038,587	31,376,735
Investment in WFU pool	<u>185,822</u>	<u>218,211</u>
Total endowment investments	<u>\$ 31,224,409</u>	<u>31,594,946</u>

Reynolda House owned 669,418 units and 668,976 units in the WFU managed endowment pool, which include the investment in VFII and the WFU pool with a combined fair value per unit of \$46.64 and \$47.23 at June 30, 2019 and 2018, respectively. Realized and unrealized appreciation on investments is recorded in the accompanying statement of activities net of investment expenses of \$271,230 and \$279,712 for the years ended June 30, 2019 and 2018, respectively.

Reynolda House may withdraw its initial investment interest and any subsequent interests in VFII upon 90 days' prior written notice.

VFII is constructed on a foundation of modern portfolio theory and strategic asset allocation, and diversifies its investments among various asset classes incorporating multiple strategies and investment advisors to help manage risk including interest rate, market, and credit risk. Major investment decisions are approved by WFU's Board Investment Policy Committee, which oversees WFU's investments in accordance with established guidelines. Management and investment decisions are not made in isolation, but in the context of the portfolio investments as a whole and as part of the overall investment strategy. The asset segments are:

(a) Absolute Return

Includes investments in hedge funds and hedge fund-of-funds that invest both long and short on a global basis primarily in a wide range of securities and other instruments, including equity securities (common stocks), credit securities (both investment grade and noninvestment grade), commodities, currencies, future contracts, options and other derivative instruments. The investment objective of this asset class is to produce attractive long-term risk-adjusted returns with low correlation of traditional asset classes.

(b) Commodities

Include investments in hedge funds and hedge fund-of-funds that invest in a wide range of commodities, securities, and financial instruments with a focus on commodities markets. This class also includes commodity (i.e., precious metals, industrial materials, and energy) mutual funds. The investment objective of this class is to produce attractive long-term risk-adjusted returns in excess of traditional commodity index exposure.

(c) Fixed Income

Includes corporate bonds, mortgage-backed securities, asset-backed securities, mutual funds, and other fixed income securities.

REYNOLDA HOUSE, INC.
Notes to Financial Statements
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(d) Private Equity

Includes various illiquid venture capital investments.

(e) Public Equity

Includes investments primarily in U.S. and non-U.S. (including emerging markets) common stocks, mutual funds, and exchange traded funds. This class also includes investments in hedge funds and hedge fund-of-funds that invest on both a long and short basis in global equity markets. The investment objective for this class is capital appreciation over the long term.

(f) Real Estate

Includes direct investments in commercial and residential real estate, as well as real estate mutual funds.

(5) Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 693,235	693,235
Buildings and other improvements	15,163,563	15,127,760
Equipment	1,529,528	1,486,760
Vehicles	3,450	3,450
Software	365,682	365,682
Construction in progress	17,460	—
	<u>17,772,918</u>	<u>17,676,887</u>
Less accumulated depreciation	<u>(8,749,742)</u>	<u>(8,215,560)</u>
	<u>\$ 9,023,176</u>	<u>9,461,327</u>

Total depreciation expense for the years ended June 30, 2019 and 2018 was \$587,235 and \$535,337, respectively. Reynolda House has entered into the planning and investigation phase for the restoration of the historic house roof and chimneys. The estimated cost of the planning phase is \$200,000 and estimated total cost is approximately \$1,700,000 and is expected to be complete in fall of 2021. As of June 30, 2019, architect fees of \$15,660 had been incurred on this project.

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(6) Net Assets

The following is a summary of net assets at June 30:

	2019		
	Without donor restriction	With donor restriction	Total
Operating	\$ 1,733,811	—	1,733,811
Endowment	23,965,440	7,258,969	31,224,409
Investment in plant, net	9,023,176	—	9,023,176
Donor Pledges and gifts	—	115,559	115,559
	<u>\$ 34,722,427</u>	<u>7,374,528</u>	<u>42,096,955</u>

	2018		
	Without donor restriction	With donor restriction	Total
Operating	\$ 1,262,587	—	1,262,587
Endowment	24,265,959	7,328,987	31,594,946
Investment in plant, net	10,001,327	—	10,001,327
Donor Pledges and gifts	—	280,632	280,632
	<u>\$ 35,529,873</u>	<u>7,609,619</u>	<u>43,139,492</u>

During the years ended June 30, 2019 and 2018, net assets of \$571,434 and \$550,639, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time.

(7) Endowments and Quasi-Endowment

Reynolda House applies the state of North Carolina's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides for standards of prudence to be utilized by organizations in making determinations to appropriate or accumulate donor-restricted endowment funds. UPMIFA also requires that earnings from donor-restricted endowments, unless otherwise instructed by the gift instrument, be classified as donor-restricted and as temporarily restricted until they are appropriated for expenditure.

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Reynolda House's endowments consist of several donor-restricted funds established to support art initiatives, maintenance and other restricted purposes. Reynolda House's Board of Directors also maintains a board-designated endowment, which is designated for long-term investment. Net assets associated with endowment funds, including net assets designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Directors of Reynolda House has interpreted the North Carolina enacted version of 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. As a result of this interpretation, Reynolda House classifies as donor restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, Reynolda House considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of Reynolda House and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of Reynolda House
- g. The investment policies of Reynolda House

(b) 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 Reynolda House to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in net assets with donor restrictions were \$1,998,676 and \$1,963,086 as of June 30, 2019 and 2018, respectively. These deficiencies resulted primarily from unfavorable market fluctuations that occurred during the 2009 fiscal year and the continued appropriation for the current period, which was deemed prudent by the Board of Directors.

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(c) Return Objective and Risk Parameters

Reynolda House has adopted investment and spending policies for endowment assets that support the long-term investment objective of providing a sustainable and increasing level of endowment income distribution to support the Reynolda House's activities through the annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment exclusive of gift additions. The Reynolda House's primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Reynolda House relies on a total return strategy, the objective of which is to achieve a return consisting of a combination of current income and capital appreciation, without regard to an emphasis on either, recognizing that changes in market conditions and interest rates will result in varying strategies in an attempt to optimize results. The endowment portfolio is diversified among various asset classes and strategies to help reduce risk.

(e) Spending Policy and How the Objectives Relate to Spending Policy

Reynolda House will appropriate for expenditure in its annual budget a board-approved percentage of the rolling average of the market value (calculated semi-annually) per unit of the endowment assets over the preceding three years, the base to be adjusted for new capital contributions to the endowment. The Board approved an endowment spending rate of up to 5.5% and 5.6% of the rolling three-year average for the years ended June 30, 2019 and 2018, respectively. The actual spending rate for the years ended June 30, 2019 and 2018 was 5.5% and 5.6%, respectively.

Endowment net assets consist of the following at June 30, 2019 and 2018 is as follows:

	2019			2018 Total
	Without donor restriction	With donor restriction	Total	
Donor-restricted endowment funds:				
Historical value	\$ —	8,832,117	8,832,117	8,832,117
Appreciation	—	425,528	425,528	459,956
Total donor-restricted endowment funds	—	9,257,645	9,257,645	9,292,073
Board-designated endowment funds	23,965,440		23,965,440	24,265,959
Underwater endowments	—	(1,998,676)	(1,998,676)	(1,963,086)
Total endowment net assets	\$ 23,965,440	7,258,969	31,224,409	31,594,946

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Changes in endowment net assets for the fiscal year ended June 30, 2019 and 2018 are as follows:

	2019			2018 Total
	Without donor restriction	With donor restriction	Total	
Endowment, beginning of year	\$ 24,265,959	7,328,987	31,594,946	30,618,314
Investment returns, net	1,042,538	315,429	1,357,967	1,842,926
Contributions	—	—	—	40,412
Transfers	—	—	—	850,000
Appropriation for expenditure	(1,343,057)	(385,447)	(1,728,504)	(1,756,706)
Endowment, end of year	<u>\$ 23,965,440</u>	<u>7,258,969</u>	<u>31,224,409</u>	<u>31,594,946</u>

(8) Related-Party Transactions

WFU routinely processes transactions for Reynolda House. Transaction processing includes, but is not limited to, payroll, accounts payable and receipt services. When WFU processes these transactions, the cash received or expended is recorded as an increase or decrease in the due to WFU account included in the accompanying statement of financial position. As of June 30, 2019 and 2018, these transactions resulted in a net liability due to WFU of \$149,119 and \$302,868, respectively.

Reynolda House purchases certain goods and services from WFU. The goods and services purchased include primarily administrative support services. For fiscal years 2019 and 2018, WFU charged Reynolda House approximately \$155,000 and \$151,000, respectively, for these administrative support services. WFU provides certain other support at no charge to Reynolda House. The value of these services in 2019 and 2018 is approximately \$79,000 and \$87,000, respectively, and is reflected in other revenue and a corresponding expense in management and general.

Reynolda House pays fees to VCM for investment management. These fees were approximately \$95,000 in 2019 and 2018.

For fiscal years 2019 and 2018, WFU contributed \$405,000 and \$505,000, respectively, to Reynolda House primarily in support of Reynolda House's general operations.

During the years ended June 30, 2019 and 2018, members of the Board of Directors contributed cash gifts to Reynolda House totaling approximately \$294,900 and \$422,100, respectively, and noncash gifts totaling approximately \$18,800 and \$10,600, respectively. From time to time, members of the Board of Directors may also contribute works of art to Reynolda House. No amounts associated with such gifts are reflected in the accompanying financial statements or notes in accordance with Reynolda House's policy of recording works of art and historical treasures (note 1). In addition, contributions receivable related to outstanding pledges made by the Board of Directors were \$21,000 and \$12,000 at June 30, 2019 and 2018, respectively.

(9) Benefit Plan

A tax deferred annuity plan, administered by WFU, is provided for all eligible employees whereby a specified percentage of each employee's eligible salary is contributed to the plan by Reynolda House.

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Contributions during the years ended June 30, 2019 and 2018 totaled approximately \$116,000 and \$140,000, respectively.

(10) Fair Value of Financial Instruments

The fair value 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 measurements involving significant unobservable inputs (Level 3 measurements). The hierarchy requires the use of observable market data when available. The three levels of the fair value hierarchy are as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities are determined through direct or indirect observations other than quoted market prices.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions.

Net asset value (NAV) – Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

The carrying amount of cash (Level 1), accounts receivable (Level 2) and accounts payable and accrued expenses (Level 2) approximate fair value because of the terms and the relatively short maturity of these financial instruments. The carrying amount of contributions receivable represents the present value of estimated future cash flows (Level 3).

Reynolda House's interest in VFII of \$31,038,587 and \$31,376,735 at June 30, 2019 and 2018, respectively, is reported at estimated fair value based upon the unit value, which is equivalent to net asset value. Because net asset value per share is used as a practical expedient to estimate fair value, these investments are excluded from fair value leveling disclosure. Investment in the WFU pool is summarized in the fair value table as follows:

<u>Description</u>	<u>Total fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment in WFU pool at June 30, 2019	\$ 185,822	—	185,822	—
Investment in WFU pool at June 30, 2018	218,211	—	218,211	—

Valuation techniques used to estimate fair value need to maximize the use of observable inputs and minimize the use of unobservable inputs. These methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Reynolda House believes its valuation methods are appropriate and consistent with other market participants, the use of

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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.

(11) Expenses By Nature and Function

The table below presents expenses by both their nature and their function for each fiscal year. The financial statements report certain categories of expenses that are attributable to more than one functional area. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Facilities and maintenance, depreciation, and office expenses are allocated to program and supporting activities based upon direct costing or allocated using a variety of allocation techniques such as square footage and staff full time equivalents, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

2019					
		Program services	Management and general	Development and fund-raising	Total
Salaries and benefits	\$	1,695,628	393,489	370,857	2,459,974
Depreciation and amortization		568,267	11,334	7,634	587,235
Services		454,912	58,364	25,605	538,881
Equipment and maintenance		232,318	5,515	4,307	242,140
Supplies, printing, postage		118,340	5,090	22,107	145,537
Marketing and advertising		131,341	—	681	132,022
Travel, entertainment, conferences, and dues		77,176	30,951	50,096	158,223
Cost of goods sold		70,495	—	—	70,495
Other operating expenses		81,574	109,828	90,758	282,160
Total expenses	\$	3,430,051	614,571	572,045	4,616,667

2018					
		Program services	Management and general	Development and fund-raising	Total
Salaries and benefits	\$	2,000,688	341,015	395,689	2,737,392
Depreciation and amortization		518,045	10,332	6,960	535,337
Services		668,111	55,666	148,825	872,602
Equipment and maintenance		423,688	9,796	7,592	441,076
Supplies, printing, postage		330,572	11,971	23,188	365,731
Marketing and advertising		157,874	—	—	157,874
Travel, entertainment, conferences, and dues		44,150	22,018	70,021	136,189
Cost of goods sold		194,810	—	—	194,810
Other operating expenses		259,667	84,788	176,765	521,220
Total expenses	\$	4,597,605	535,586	829,040	5,962,231

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(12) Subsequent Events

In connection with the preparation of the financial statements, Reynolda House has evaluated events subsequent to June 30, 2019 through November 6, 2019, the date on which the financial statements were available to be issued, and determined that there were no additional matters that are required to be disclosed.