



**REYNOLDA HOUSE, INC.**

Financial Statements

June 30, 2021

(With Independent Auditors' Report Thereon)

**REYNOLDA HOUSE, INC.**

**Board of Directors as of June 30,  
2021**

Barbara B. Millhouse  
Founding President  
New York, New York

Endia Beal  
Winston-Salem, North Carolina

Dianne N. Blixt  
Lewisville, North Carolina

Randell A. Cain, Jr.  
Winston-Salem, North Carolina

Paul F. Callaway  
Greensboro, North Carolina

Iris Cole  
Winston-Salem, North Carolina

Susan K. Conger  
Winston-Salem, North Carolina

Sandlin Douglas  
Winston-Salem, North Carolina

Lynn Eisenberg  
Winston-Salem, North Carolina

Helen Feinberg  
St. Pete Beach, Florida

John C. Fox  
Winston-Salem, North Carolina

Dr. Laura Gerald  
Winston-Salem, North Carolina

Nadine D. Hall  
Lewisville, North Carolina

Curtis G. Leonard  
Clemmons, North Carolina

Amy McMichael  
Greensboro, 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

Lynn Eisenberg  
Winston-Salem, North Carolina

Emily Rostlund  
Winston-Salem, North Carolina

Cyndi Skaar  
Winston-Salem, North Carolina

Kim Stogner  
Winston-Salem, North Carolina

Gwynne S. Taylor  
Winston-Salem, North Carolina

**Ex Officio**

Chair, Docent – Volunteer Board  
Patsy Currin  
Winston-Salem, North Carolina

**Officers**

President  
T. David Neill

Vice President  
Dianne N. Blixt

Treasurer  
John C. Fox

Secretary  
Anna Warburton Munroe

President of Wake Forest  
University  
Nathan O. Hatch

**Executive Director**  
Allison C. Perkins

**REYNOLDA HOUSE, INC.**

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KPMG LLP  
Suite 800  
500 W 5th St  
Winston-Salem, NC 27101

## 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, 2021, 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, 2021, 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.



*Report on Summarized Comparative Information*

We have previously audited Reynolda House, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 5, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Greensboro, North Carolina  
November 8, 2021

**REYNOLDA HOUSE, INC.**

Statement of Financial Position

June 30, 2021

(with comparative information as of June 30, 2020)

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Cash	\$ 2,431,844	2,987,099
Accounts receivable, net	26,123	15,438
Contributions receivable, net (notes 3 and 8)	139,586	155,901
Investments (notes 4 and 10)	37,783,064	29,909,108
Land, buildings and equipment, net (note 5)	8,678,823	8,619,426
Other assets	166,834	209,779
Total assets	<u>\$ 49,226,274</u>	<u>41,896,751</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 187,006	71,147
Other liabilities and deferrals	68,695	207,545
Due to Wake Forest University (note 8)	166,187	96,091
Total liabilities	<u>421,888</u>	<u>374,783</u>
Net assets:		
Without donor restrictions:		
Undesignated	9,913,855	10,372,457
Designated for:		
Long-term investment (note 7)	29,134,113	22,955,917
Maintenance reserve	111,004	159,615
	<u>39,158,972</u>	<u>33,487,989</u>
With donor restrictions (notes 6 and 7)	9,645,414	8,033,979
Total net assets	<u>48,804,386</u>	<u>41,521,968</u>
Total liabilities and net assets	<u>\$ 49,226,274</u>	<u>41,896,751</u>

See accompanying notes to financial statements.

**REYNOLDA HOUSE, INC.**

Statement of Activities

Year ended June 30, 2021

(with summarized comparative financial information for the year ended June 30, 2020)

	2021			2020 Total
	Without donor restrictions	With donor restrictions	Total	
Revenue, gains and other support:				
Grants, contributions, and gifts in kind (notes 3 and 8)	\$ 1,665,523	94,112	1,759,635	2,402,356
Grants from Wake Forest University (note 8)	469,000	—	469,000	669,000
Admissions and sales	221,733	—	221,733	204,412
Program income	5,225	—	5,225	52,950
Net investment results	6,988,094	2,098,048	9,086,142	409,791
Other	11,903	—	11,903	29,517
Net assets released from restrictions (note 6)	580,725	(580,725)	—	—
Total revenue, gains and other support	9,942,203	1,611,435	11,553,638	3,768,026
Expenses:				
Program services	3,229,591	—	3,229,591	3,232,376
Management and general (note 8)	550,918	—	550,918	559,554
Development and fund-raising	490,711	—	490,711	551,083
Total expenses	4,271,220	—	4,271,220	4,343,013
Change in net assets	5,670,983	1,611,435	7,282,418	(574,987)
Net assets at the beginning of the year	33,487,989	8,033,979	41,521,968	42,096,955
Net assets at the end of the year	\$ 39,158,972	9,645,414	48,804,386	41,521,968

See accompanying notes to financial statements.

**REYNOLDA HOUSE, INC.**

Statement of Cash Flows

Year ended June 30, 2021

(with comparative information as of June 30, 2020)

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Change in net assets	\$ 7,282,418	(574,987)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	581,526	572,550
Net realized and unrealized gains on investments	(8,898,763)	(179,247)
Noncash gifts	(6,108)	(167,905)
Changes in operating assets and liabilities:		
Accounts receivable	(10,685)	(4,761)
Contributions receivable	16,315	(114,710)
Other assets	42,945	(4,828)
Accounts payable and accruals	3,725	(31,647)
Other liabilities and deferrals	(138,850)	(39,772)
Due to Wake Forest University	70,096	(53,028)
Net cash used in operating activities	(1,057,381)	(598,335)
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(528,789)	(184,460)
Purchases of investments	(712,379)	(230,544)
Proceeds from sales and maturities of investments	1,743,294	1,892,997
Net cash provided by investing activities	502,126	1,477,993
Net change in cash	(555,255)	879,658
Cash at beginning of year	2,987,099	2,107,441
Cash at end of year	\$ 2,431,844	2,987,099
Supplemental disclosures of cash flow information:		
Noncash gifts of stock	\$ 6,108	167,905
Capital expenditures in accounts payable	112,134	—

See accompanying notes to financial statements.

## REYNOLDA HOUSE, INC.

### Notes to Financial Statements

June 30, 2021

(With Comparative Information as of June 30, 2020)

#### **(1) Organization and Summary of Significant Accounting Policies**

Reynolda House, Inc. (Reynolda House or the Museum) 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, 2021, 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 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 leases and operating leases in the statement of operations and the statement of cash flows is largely unchanged from previous GAAP. The Museum adopted ASU 2016-02 on July 1, 2019 using a modified retrospective approach. The Museum did not reassess whether any existing or expired agreements contain leases, the lease classification for any expired or existing leases, and the initial direct costs for any expired or existing leases through election of the package of practical expedients permitted under the ASU. This ASU requires that the rights and obligations arising from the lease contracts, including existing and new arrangements, be recognized as assets and liabilities on the statement of financial position, in addition to disclosure to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. Upon adoption, the guidance did not materially impact the Museum's results of operations. No right-of-use assets or related lease obligations were recorded by Reynolda House.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*, as amended. ASU 2018-13 simplifies certain disclosure requirements in Topic 820. The museum adopted ASU 2018-13 in fiscal 2021 with no material impact to fair value measurement disclosures.

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In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. This ASU specifically addresses the use of proceeds from sales of collections and related disclosures. Collections include groupings of art, historical treasures or similar assets that are: held for the public; preserved and protected; and when sold, the proceeds are reserved for specified uses. Under the clarified definition, proceeds from the sale of collection items can be used either to acquire new items or directly care for existing items already in possession. The Museum adopted ASU 2019-03 in fiscal 2021 and will continue to follow to the extent allowed by other governing practices.

#### **(c) Effects of COVID-19 Pandemic on Operations**

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economics and financial markets may adversely affect operations and financial condition, including, among other things, (i) the cost of operations, (ii) governmental and non-governmental funding, and (iii) financial markets impacting investments valuation and interest rates.

Reynolda House closed the museum to the public on March 13, 2020 and remained closed for the remaining of the fiscal year and through the end of September 2020. While some staff were working on-site to ensure continuity of essential operations, most full time staff transitioned to remote work. In addition, the Museum transitioned to offer online summer camps and fall programs, and reopened to the public in October 2020 under state mandated limited capacities to support the social distancing requirements issued by governmental authorities. Given the uncertainty over the progression of the virus and governmental emergency directives, there is no timetable for the full return to normal museum operations.

The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the museum industry in general. While the future financial impact on the Museum cannot be quantified at this time, the pandemic may have a material adverse effect on the current and future financial profile and operating performance of the Museum. The Museum continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the Museum and promote the continuity of its mission.

#### **(d) 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

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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.

**(e) Cash**

At June 30, 2021 and 2020, 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.

**(f) 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 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.

**(g) 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.

**(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

## REYNOLDA HOUSE, INC.

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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 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 years ended June 30, 2021 or June 30, 2020.

#### **(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 or towards direct care of collections. Reynolda House defines direct care expenditures as investments in the existing collections that directly enhance the life, usefulness or quality of the

**REYNOLDA HOUSE, INC.**

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collections, thereby ensuring that they will continue to benefit the public. 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 2021 or 2020.

**(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, 2018 remain subject to income tax examinations. Management 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, 2021 and 2020.

**(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, 2020 from which this information was derived.

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Notes to Financial Statements  
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**(2) Liquidity and Availability**

Financial assets available for general expenditure within one year of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,431,844	2,987,099
Accounts receivable, net	26,123	15,438
Investments available to be liquidated	<u>1,747,890</u>	<u>1,730,446</u>
Total financial assets available within one year	<u>\$ 4,205,857</u>	<u>4,732,983</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 \$29,134,113 and \$22,955,917 at June 30, 2021 and 2020, respectively. 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
One year or less	\$ 122,525	78,883
Between one and five years	<u>18,983</u>	<u>79,809</u>
Gross contributions receivable	141,508	158,692
Less estimated uncollectible amounts	1,775	2,268
Less discount at rates ranging from 0.62% – 1.46%	<u>147</u>	<u>523</u>
Contributions receivable, net	<u>\$ 139,586</u>	<u>155,901</u>

Included in contributions receivable are gross contributions receivable totaling approximately \$120,000 and \$130,000 from two donors at June 30, 2021 and June 30, 2020, respectively.

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**(4) Investments**

Investments at June 30, 2021 and 2020 consist of the following:

	<b>2021</b>	<b>2020</b>
Investment in VFII	\$ 37,652,087	29,763,164
Investment in WFU pool	130,977	145,944
Total endowment investments	\$ 37,783,064	29,909,108

Reynolda House owned 679,848 and 669,418 units at June 30, 2021 and 2020, respectively, in the WFU managed endowment pool, which include the investment in VFII and the WFU pool with a combined fair value per unit of \$55.58 and \$44.68 at June 30, 2021 and 2020, 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.

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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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 699,114	699,114
Buildings and other improvements	15,393,467	15,163,563
Equipment	1,582,785	1,544,892
Vehicles	22,401	22,401
Software	387,002	392,002
Construction in progress	<u>384,104</u>	<u>138,700</u>
	18,468,873	17,960,672
Less accumulated depreciation	<u>(9,790,050)</u>	<u>(9,341,246)</u>
	<u>\$ 8,678,823</u>	<u>8,619,426</u>

Total depreciation expense for the years ended June 30, 2021 and 2020 was \$581,526 and \$572,550, respectively. In 2020 Reynolda House entered into the planning and investigation phase for the restoration of the historic house roof and chimneys. The project also includes the replacement of three air handling units in the attic of the historic house. The estimated total cost is approximately \$4,000,000 and is expected to be complete in spring of 2022. As of June 30, 2021, architect and other fees of \$318,259 had been incurred on this project. In addition, Reynolda House began a project to replace the museum's website in the fall of 2021 with a new website that would encompass all of the Reynolda estate properties including the museum, Reynolda Gardens, and Reynolda Village. The estimated cost of the project is \$127,515 and as of June 30, 2021, \$65,845 had been incurred on this project.

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**(6) Net Assets**

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

	<b>2021</b>		
	<b>Without donor restriction</b>	<b>With donor restriction</b>	<b>Total</b>
Operating	\$ 1,346,036	—	1,346,036
Endowment	29,134,113	8,648,951	37,783,064
Investment in plant, net	8,678,823	—	8,678,823
Donor pledges and gifts	—	996,463	996,463
	<u>\$ 39,158,972</u>	<u>9,645,414</u>	<u>48,804,386</u>
	<b>2020</b>		
	<b>Without donor restriction</b>	<b>With donor restriction</b>	<b>Total</b>
Operating	\$ 1,912,646	—	1,912,646
Endowment	22,955,917	6,953,191	29,909,108
Investment in plant, net	8,619,426	—	8,619,426
Donor pledges and gifts	—	1,080,788	1,080,788
	<u>\$ 33,487,989</u>	<u>8,033,979</u>	<u>41,521,968</u>

During the years ended June 30, 2021 and 2020, net assets of \$580,725 and \$454,669, 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.

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

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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 \$1,212,713 and \$2,188,800, with original corpus of \$8,832,117, as of June 30, 2021 and 2020, 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.

**(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.

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**(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% of the rolling three-year average for the years ended June 30, 2021 and 2020. The actual spending rate for the years ended June 30, 2021 and 2020 was 5.5%.

Endowment net assets consist of the following at June 30, 2021 and 2020 is as follows:

	2021			2020 Total
	Without donor restriction	With donor restriction	Total	
Donor-restricted endowment funds:				
Historical value	\$ —	8,832,117	8,832,117	8,832,117
Appreciation	—	1,029,547	1,029,547	309,874
Total donor-restricted endowment funds	—	9,861,664	9,861,664	9,141,991
Board-designated endowment funds	29,134,113	—	29,134,113	22,955,917
Underwater endowments	—	(1,212,713)	(1,212,713)	(2,188,800)
Total endowment net assets	\$ 29,134,113	8,648,951	37,783,064	29,909,108

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Changes in endowment net assets for the fiscal year ended June 30, 2021 and 2020 are as follows:

	<b>2021</b>			<b>2020</b> <b>Total</b>
	<b>Without donor restriction</b>	<b>With donor restriction</b>	<b>Total</b>	
Endowment, beginning of year	\$ 22,955,917	6,953,191	29,909,108	31,224,409
Investment returns, net	6,988,094	2,098,048	9,086,142	409,791
Contributions	—	—	—	—
Transfers	525,000	—	525,000	—
Appropriation for expenditure	(1,334,898)	(402,288)	(1,737,186)	(1,725,092)
Endowment, end of year	<u>\$ 29,134,113</u>	<u>8,648,951</u>	<u>37,783,064</u>	<u>29,909,108</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, 2021 and 2020, these transactions resulted in a net liability due to WFU of \$166,187 and \$96,091, respectively.

Reynolda House purchases certain goods and services from WFU. The goods and services purchased include primarily administrative support services. For fiscal years 2021 and 2020, WFU charged Reynolda House approximately \$233,000 and \$206,000, respectively, for these administrative support services. WFU provides certain other support at no charge to Reynolda House. The value of these services in 2021 and 2020 is approximately \$68,000 and \$75,000, respectively, and is reflected in grants, contributions and gifts in kind, and a corresponding expense in management and general.

Reynolda House pays fees to VCM for investment management. These fees were approximately \$97,000 and \$94,000 in 2021 and 2020, respectively.

For fiscal years 2021 and 2020, WFU contributed \$469,000 to Reynolda House primarily in support of Reynolda House's general operations. WFU contributed \$200,000 to Reynolda House in fiscal year 2020 in support of the roof rehabilitation capital project.

During the years ended June 30, 2021 and 2020, members of the Board of Directors contributed cash gifts to Reynolda House totaling approximately \$280,900 and \$302,900, 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 \$6,000 and \$12,800 at June 30, 2021 and 2020, 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, 2021 and 2020 totaled approximately \$111,000 and \$106,000, 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 \$37,652,087 and \$29,763,164 at June 30, 2021 and 2020, 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, 2021	\$ 130,977	—	130,977	—
Investment in WFU pool at June 30, 2020	145,944	—	145,944	—

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.

	<b>2021</b>			
	<b>Program services</b>	<b>Management and general</b>	<b>Development and fund-raising</b>	<b>Total</b>
Salaries and benefits	\$ 1,580,860	405,973	409,210	2,396,043
Depreciation and amortization	562,743	11,223	7,560	581,526
Services	518,933	41,690	44,954	605,577
Equipment and maintenance	177,608	3,842	3,920	185,370
Supplies, printing, postage	103,419	5,283	14,697	123,399
Marketing and advertising	74,117	392	399	74,908
Travel, entertainment, conferences, and dues	7,303	15,451	9,274	32,028
Cost of goods sold	50,903	—	—	50,903
Other operating expenses	153,705	67,064	697	221,466
Total expenses	\$ <u>3,229,591</u>	<u>550,918</u>	<u>490,711</u>	<u>4,271,220</u>

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<b>2020</b>					
		<b>Program services</b>	<b>Management and general</b>	<b>Development and fund-raising</b>	<b>Total</b>
Salaries and benefits	\$	1,643,602	404,697	392,897	2,441,196
Depreciation and amortization		554,056	11,051	7,443	572,550
Services		465,764	38,369	51,637	555,770
Equipment and maintenance		184,370	4,013	1,776	190,159
Supplies, printing, postage		104,148	3,316	36,812	144,276
Marketing and advertising		97,950	—	—	97,950
Travel, entertainment, conferences, and dues		47,017	22,060	47,127	116,204
Cost of goods sold		45,259	—	—	45,259
Other operating expenses		90,210	76,048	13,391	179,649
Total expenses	\$	3,232,376	559,554	551,083	4,343,013

**(12) Subsequent Events**

In connection with the preparation of the financial statements, Reynolda House has evaluated events subsequent to June 30, 2021 through November 8, 2021, the date on which the financial statements were available to be issued, and determined that there were no matters that are required to be disclosed.