



REYNOLDA HOUSE, INC.

Financial Statements

June 30, 2022

(With Independent Auditors' Report Thereon)

REYNOLDA HOUSE, INC.

Board of Directors as of June 30, 2022

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

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Winston-Salem, North Carolina

Susan K. Conger
Winston-Salem, North Carolina

Sandlin Douglas
Winston-Salem, North Carolina

Lynn Eisenberg
Winston-Salem, North Carolina

John C. Fox
Winston-Salem, North Carolina

Dr. Laura Gerald
Winston-Salem, North Carolina

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Curtis G. Leonard
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Jeff Lindsay
Winston-Salem, 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

Melody Pierce
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

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

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T. David Neill

Vice President
Dianne N. Blixt

Treasurer
John C. Fox

Secretary
Anna Warburton Munroe

President of Wake Forest
University
Susan R. Wente

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

The Board of Directors
Reynolda House, Inc.:

Opinion

We have audited the financial statements of Reynolda House, Inc., which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Reynolda House, Inc. as of June 30, 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Reynolda House, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Reynolda House, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Reynolda House, Inc.'s 2021 financial statements, and we issued an unmodified audit opinion on those audited financial statements in our report dated November 8, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

Winston-Salem, North Carolina
November 7, 2022

REYNOLDA HOUSE, INC.

Statement of Financial Position

June 30, 2022

(with comparative information as of June 30, 2021)

Assets	2022	2021
Cash	\$ 2,168,445	2,431,844
Accounts receivable, net	45,332	26,123
Grants receivable	38,742	—
Contributions receivable, net (notes 3 and 8)	71,402	139,586
Investments (notes 4 and 10)	36,339,268	37,783,064
Land, buildings and equipment, net (note 5)	11,580,200	8,678,823
Other assets	179,316	166,834
Total assets	<u>\$ 50,422,705</u>	<u>49,226,274</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 109,083	187,006
Other liabilities and deferrals	133,977	68,695
Due to Wake Forest University (note 8)	2,451,699	166,187
Total liabilities	<u>2,694,759</u>	<u>421,888</u>
Net assets:		
Without donor restrictions:		
Undesignated	11,105,366	9,913,855
Designated for:		
Long-term investment (note 7)	28,020,817	29,134,113
Maintenance reserve	132,007	111,004
	<u>39,258,190</u>	<u>39,158,972</u>
With donor restrictions (notes 6 and 7)	<u>8,469,756</u>	<u>9,645,414</u>
Total net assets	<u>47,727,946</u>	<u>48,804,386</u>
Total liabilities and net assets	<u>\$ 50,422,705</u>	<u>49,226,274</u>

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.

Statement of Activities

Year ended June 30, 2022

(with summarized comparative financial information for the year ended June 30, 2021)

	2022			2021
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, gains and other support:				
Grants, contributions, and gifts in kind (notes 3 and 8) \$	1,851,523	302,746	2,154,269	1,759,635
Grants from Wake Forest University (note 8)	454,000	430,000	884,000	469,000
Admissions and sales	385,607	—	385,607	221,733
Program income	23,243	—	23,243	5,225
Net investment results	234,489	69,611	304,100	9,086,142
Other	35,928	—	35,928	11,903
Net assets released from restrictions (note 6)	1,978,015	(1,978,015)	—	—
Total revenue, gains and other support	4,962,805	(1,175,658)	3,787,147	11,553,638
Expenses:				
Program services	3,791,242	—	3,791,242	3,229,591
Management and general (note 8)	599,548	—	599,548	550,918
Development and fund-raising	472,797	—	472,797	490,711
Total expenses	4,863,587	—	4,863,587	4,271,220
Change in net assets	99,218	(1,175,658)	(1,076,440)	7,282,418
Net assets at the beginning of the year	39,158,972	9,645,414	48,804,386	41,521,968
Net assets at the end of the year \$	39,258,190	8,469,756	47,727,946	48,804,386

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.

Statement of Cash Flows

Year ended June 30, 2022

(with comparative information as of June 30, 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,076,440)	7,282,418
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	687,158	581,526
Loss on disposal of property	100,000	—
Net realized and unrealized gains on investments	(103,637)	(8,898,763)
Noncash gifts	(7,715)	(6,108)
Changes in operating assets and liabilities:		
Accounts receivable	(19,209)	(10,685)
Grants receivable	(38,742)	—
Contributions receivable	68,184	16,315
Other assets	(12,482)	42,945
Accounts payable and accruals	32,819	3,725
Other liabilities and deferrals	65,282	(138,850)
Due to Wake Forest University	(33,006)	70,096
Net cash used in operating activities	<u>(337,788)</u>	<u>(1,057,381)</u>
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(3,799,277)	(528,789)
Purchases of investments	(200,457)	(712,379)
Proceeds from sales and maturities of investments	<u>1,755,605</u>	<u>1,743,294</u>
Net cash (used in) provided by investing activities	<u>(2,244,129)</u>	<u>502,126</u>
Cash flows from financing activities:		
Proceeds from notes payable from Wake Forest University	<u>2,318,518</u>	—
Net cash provided by financing activities	<u>2,318,518</u>	—
Net change in cash	(263,399)	(555,255)
Cash at beginning of year	<u>2,431,844</u>	<u>2,987,099</u>
Cash at end of year	\$ <u>2,168,445</u>	<u>2,431,844</u>
Supplemental disclosures of cash flow information:		
Noncash gifts of stock	\$ 7,715	6,108
Capital expenditures in accounts payable	1,392	112,134

See accompanying notes to financial statements.

REYNOLDA HOUSE, INC.

Notes to Financial Statements

June 30, 2022

(With Comparative Information as of June 30, 2021)

(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, 2022, 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) 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

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period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

(c) Cash

At June 30, 2022 and 2021, 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.

(d) 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.

(e) 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.

(f) 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.

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Notes to Financial Statements

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(With Comparative Information as of June 30, 2021)

(g) 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.

(h) 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 for the years ended June 30, 2022 or June 30, 2021.

(i) 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.

(j) 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 in the fiscal years ended June 30, 2022 and 2021. There were no purchases of collection items in fiscal year 2021. Reynolda House purchased for its collection three works of art in fiscal year 2022 totaling \$206,200.

(k) 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

REYNOLDA HOUSE, INC.
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assumptions include the useful lives of buildings and equipment, allowance for contributions receivable, and valuation of investments.

(l) 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.

(m) 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, 2019 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, 2022 and 2021.

(n) 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, 2021 from which this information was derived.

(2) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,168,445	2,431,844
Accounts receivable, net	45,332	26,123
Investments available to be liquidated	<u>1,872,982</u>	<u>1,747,890</u>
Total financial assets available within one year	<u>\$ 4,086,759</u>	<u>4,205,857</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 \$28,020,817 and \$29,134,113 at June 30, 2022 and 2021, 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.

REYNOLDA HOUSE, INC.
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(3) Contributions Receivable

The following is an analysis of the maturities of Reynolda House's contributions receivable at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
One year or less	\$ 68,100	122,525
Between one and five years	<u>4,458</u>	<u>18,983</u>
Gross contributions receivable	72,558	141,508
Less estimated uncollectible amounts	1,128	1,775
Less discount at rates ranging from 0.62% – 2.41%	<u>28</u>	<u>147</u>
Contributions receivable, net	<u>\$ 71,402</u>	<u>139,586</u>

Included in contributions receivable are gross contributions receivable totaling approximately \$63,600 and \$120,000 from two donors at June 30, 2022 and June 30, 2021, respectively.

(4) Investments

Investments at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Investment in VFII	\$ 36,217,749	37,652,087
Investment in WFU pool	<u>121,519</u>	<u>130,977</u>
Total endowment investments	<u>\$ 36,339,268</u>	<u>37,783,064</u>

Reynolda House owned 679,848 units at June 30, 2022 and 2021 in the WFU managed endowment pool, which include the investment in VFII and the WFU pool with a combined fair value per unit of \$53.45 and \$55.58 at June 30, 2022 and 2021, 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

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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.

(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.

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(5) Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows at June 30, 2022 and 2021:

	2022	2021
Land and improvements	\$ 699,114	699,114
Buildings and other improvements	19,231,310	15,393,467
Equipment	1,534,927	1,582,785
Vehicles	31,251	22,401
Software	274,616	387,002
Construction in progress	39,144	384,104
	<u>21,810,362</u>	<u>18,468,873</u>
Less accumulated depreciation	<u>(10,230,162)</u>	<u>(9,790,050)</u>
	<u><u>\$ 11,580,200</u></u>	<u><u>8,678,823</u></u>

Total depreciation expense for the years ended June 30, 2022 and 2021 was \$687,158 and \$581,526, respectively. In 2020 Reynolda House entered into a project to restore the historic house roof and chimneys. The project also included the replacement of three air handling units in the attic of the historic house. The estimated total cost was approximately \$4,000,000 and was approximately 97% complete as of June 30, 2022. The project is expected to be completed in spring of 2023. As of June 30, 2022, construction costs and other fees of \$3,877,823 had been incurred on this project and the roof and HVAC portions of the project were capitalized. In addition, a majority of the Reynolda House project to replace the museum's website in the fall of 2022 with a new website that would encompass all of the Reynolda estate properties including the museum, Reynolda Gardens, and Reynolda Village, had been completed. The estimated total cost of the project is \$149,875 and as of June 30, 2022, \$123,980 had been incurred and capitalized on this project.

(6) Net Assets

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

	Without donor restriction	With donor restriction	2022 Total
Operating	\$ 1,975,691	—	1,975,691
Endowment	28,020,817	8,318,451	36,339,268
Investment in plant, net	9,261,682	—	9,261,682
Donor pledges and gifts	<u>—</u>	<u>151,305</u>	<u>151,305</u>
	<u><u>\$ 39,258,190</u></u>	<u><u>8,469,756</u></u>	<u><u>47,727,946</u></u>

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	2021		
	Without donor restriction	With donor restriction	Total
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>

During the years ended June 30, 2022 and 2021, net assets of \$1,978,015 and \$580,725, 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 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

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- 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 \$1,396,031 and \$1,212,713, with original corpus of \$8,832,117, as of June 30, 2022 and 2021, 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.

(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, 2022 and 2021. The actual spending rate for the years ended June 30, 2022 and 2021 was 5.5%.

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Endowment net assets consist of the following at June 30, 2022 and 2021 is as follows:

	2022			2021 Total
	Without donor restriction	With donor restriction	Total	
Donor-restricted endowment funds:				
Historical value	\$ —	8,832,117	8,832,117	8,832,117
Appreciation	—	882,365	882,365	1,029,547
Total donor-restricted endowment funds	—	9,714,482	9,714,482	9,861,664
Board-designated endowment funds	28,020,817	—	28,020,817	29,134,113
Underwater endowments	—	(1,396,031)	(1,396,031)	(1,212,713)
Total endowment net assets	\$ 28,020,817	8,318,451	36,339,268	37,783,064

Changes in endowment net assets for the fiscal year ended June 30, 2022 and 2021 are as follows:

	2022			2021 Total
	Without donor restriction	With donor restriction	Total	
Endowment, beginning of year	\$ 29,134,113	8,648,951	37,783,064	29,909,108
Investment returns, net	234,483	69,611	304,094	9,086,142
Contributions	—	—	—	—
Transfers	—	—	—	525,000
Appropriation for expenditure	(1,347,779)	(400,111)	(1,747,890)	(1,737,186)
Endowment, end of year	\$ 28,020,817	8,318,451	36,339,268	37,783,064

(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, 2022 and 2021, these transactions resulted in a net liability due to WFU of \$133,181 and \$166,187, respectively. In fiscal year 2022, Reynolda House entered into a loan agreement with WFU for \$2,318,518 for funding to complete the historic house roof and chimney restoration. The repayment term is 30 years beginning July 1, 2022 and subject to an interest rate of 5% currently, which is subject to adjustment annually. This total will be repayable in the amounts of \$34,206, \$35,956, \$37,796, \$39,730, \$41,763, and \$2,129,067 for fiscal years 2023, 2024, 2025, 2026, 2027, and for the fiscal years thereafter, respectively.

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Reynolda House purchases certain goods and services from WFU. The goods and services purchased include primarily administrative support services. For fiscal years 2022 and 2021, WFU charged Reynolda House approximately \$247,000 and \$233,000, respectively, for these administrative support services. WFU provides certain other support at no charge to Reynolda House. The value of these services in 2022 and 2021 is approximately \$72,000 and \$68,000, 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 \$115,000 and \$97,000 in 2022 and 2021, respectively.

For fiscal years 2022 and 2021, WFU contributed \$454,000 and \$469,000, respectively, to Reynolda House primarily in support of Reynolda House's general operations. WFU contributed \$430,000 to Reynolda House in fiscal year 2022 in support of the roof rehabilitation capital project.

During the years ended June 30, 2022 and 2021, members of the Board of Directors contributed cash gifts to Reynolda House totaling approximately \$484,700 and \$280,900, 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 \$2,500 and \$6,000 at June 30, 2022 and 2021, 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. Contributions during the years ended June 30, 2022 and 2021 totaled approximately \$117,000 and \$111,000, 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.

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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 and grants 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 \$36,217,749 and \$37,652,087 at June 30, 2022 and 2021, 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:

Description	Total fair value	Level 1	Level 2	Level 3
Investment in WFU pool at June 30, 2022	\$ 121,519	—	121,519	—
Investment in WFU pool at June 30, 2021	130,977	—	130,977	—

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 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.

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(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.

2022				
	Program services	Management and general	Development and fund-raising	Total
Salaries and benefits	\$ 1,697,458	423,731	390,911	2,512,100
Depreciation and amortization	664,963	13,262	8,933	687,158
Services	652,586	51,478	25,953	730,017
Equipment and maintenance	147,925	2,102	3,219	153,246
Supplies, printing, postage	103,398	4,564	15,501	123,463
Marketing and advertising	91,480	—	250	91,730
Travel, entertainment, conferences, and dues	43,129	22,171	16,392	81,692
Cost of goods sold	69,986	—	—	69,986
Acquisition of art	206,200	—	—	206,200
Other operating expenses	114,117	82,240	11,638	207,995
Total expenses	\$ 3,791,242	599,548	472,797	4,863,587

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	2021			
	Program services	Management and general	Development and fund-raising	Total
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>

(12) Subsequent Events

In connection with the preparation of the financial statements, Reynolda House has evaluated events subsequent to June 30, 2022 through November 7, 2022, 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.