

**STERLING AND FRANCINE  
CLARK ART INSTITUTE**

**Financial Statements**

**June 30, 2020**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
**STERLING AND FRANCINE CLARK ART INSTITUTE**  
 225 South Street  
 Williamstown, MA 01267

### Report on the Financial Statements

We have audited the accompanying financial statements of Sterling and Francine Clark Art Institute ("the Clark", a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit 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 Sterling and Francine Clark Art Institute as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Organization implemented the provisions of the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606), Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958), and Update 2016-18 *Statement of Cash Flows* (Topic 230), *Restricted Cash*. Our opinion is not modified with respect to these matters.

**Report on Summarized Comparative Information**

We have previously audited the Sterling and Francine Clark Art Institute's 2019 financial statements, and our report dated October 18, 2019 expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Adelson & Company PC*

ADELSON & COMPANY PC

November 5, 2020

**Sterling and Francine Clark Art Institute**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2020**

	2020	Comparative 2019
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 2,849,723	\$ 2,457,605
Interest and dividends receivable	1,778	124,378
Unconditional promises to give-current (Note 5)	6,890,076	1,845,883
Other receivables	131,254	188,643
Inventory-museum shop	431,710	424,175
Prepaid expenses	316,005	324,084
Total current assets	10,620,546	5,364,768
Other assets		
Long-term investments, at fair value (Note 4)	372,869,262	376,595,055
Charitable trusts receivable (Note 3)	7,637,317	4,140,182
Unconditional promises to give- long-term (Note 5)	5,147,388	1,347,160
Mortgages receivable-employees (Note 7)	236,573	348,769
Property and equipment, net (Note 6)	196,299,598	202,830,766
Art and library collections	1	1
<b>TOTAL ASSETS</b>	<b>\$ 592,810,685</b>	<b>\$ 590,626,701</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 984,810	\$ 1,591,724
Accrued salaries and payroll liabilities	519,086	844,200
Notes payable due within one year (Note 8)	885,000	---
Total current liabilities	2,388,896	2,435,924
Other long-term liabilities	---	5,137
Long-term debt (Note 8)	83,603,347	84,788,206
<b>TOTAL LIABILITIES</b>	<b>85,992,243</b>	<b>87,229,267</b>
Net assets (Note 10)		
Without donor restrictions	361,084,318	374,811,492
With donor restrictions	145,734,124	128,585,942
Total net assets	506,818,442	503,397,434
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 592,810,685</b>	<b>\$ 590,626,701</b>

See notes to financial statements.

**Sterling and Francine Clark Art Institute**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Comparative Total 2019
<b>OPERATING ACTIVITIES</b>				
<b>REVENUE, GAINS AND OTHER SUPPORT</b>				
Investment support for operating activities (Note 4)	\$ 11,223,328	\$ 4,177,832	\$ 15,401,160	\$ 15,854,743
Museum shop, net	71,768		71,768	66,112
Admissions	1,013,454		1,013,454	1,104,638
Exhibition fees	31,963		31,963	43,946
Public education programs	26,617		26,617	26,560
Grant income	62,250	1,419,078	1,481,328	448,500
Contributions	362,476	4,903,310	5,265,786	4,231,884
Membership-Friends of the Clark	1,151,024	50	1,151,074	1,310,851
Occupancy, Event and other income	527,098		527,098	424,792
Net assets released from restrictions:				
Satisfaction of program purposes	5,783,412	(5,783,412)	---	---
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<u>20,253,390</u>	<u>4,716,858</u>	<u>24,970,248</u>	<u>23,512,026</u>
<b>EXPENSES</b>				
Program Services				
Research and academic programs	4,677,817		4,677,817	5,484,256
Museum programs	14,877,899		14,877,899	16,315,193
External relations	2,381,757		2,381,757	2,633,120
<b>TOTAL PROGRAM EXPENSES</b>	<u>21,937,473</u>		<u>21,937,473</u>	<u>24,432,569</u>
Support Services				
Management and general	3,523,042		3,523,042	3,554,161
Fund-raising	1,341,638		1,341,638	1,394,276
<b>TOTAL SUPPORT EXPENSES</b>	<u>4,864,680</u>		<u>4,864,680</u>	<u>4,948,437</u>
<b>TOTAL EXPENSES</b>	<u>26,802,153</u>	<u>---</u>	<u>26,802,153</u>	<u>29,381,006</u>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES (Note 6)</b>	<u>(6,548,763)</u>	<u>4,716,858</u>	<u>(1,831,905)</u>	<u>(5,868,980)</u>
<b>NON-OPERATING ACTIVITIES</b>				
Net investment income after operating support	(7,444,123)	(2,582,081)	(10,026,204)	11,742,466
Contributions	---	15,130,101	15,130,101	263,634
Net assets released from restriction	116,696	(116,696)	---	---
Disposal of Property and Equipment	---		---	3,500
CARES Act Employer Retention Payroll Tax credit	475,020		475,020	---
Collection items purchased	(326,004)	---	(326,004)	(368,345)
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<u>(7,178,411)</u>	<u>12,431,324</u>	<u>5,252,913</u>	<u>11,641,255</u>
<b>CHANGE IN NET ASSETS</b>	<u>(13,727,174)</u>	<u>17,148,182</u>	<u>3,421,008</u>	<u>5,772,275</u>
Net assets, beginning	<u>374,811,492</u>	<u>128,585,942</u>	<u>503,397,434</u>	<u>497,625,159</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 361,084,318</u>	<u>\$ 145,734,124</u>	<u>\$ 506,818,442</u>	<u>\$ 503,397,434</u>

See notes to financial statements.

**Sterling and Francine Clark Art Institute**  
**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2020**

	Program Services				Support Services			Total 2020	Comparative 2019
	Research and Academic Programs	Museum Programs	External Relations	Management and General	Fund- Raising	Buildings and Grounds	Total 2020		
Compensation and Related Expenses									
Salaries	\$ 787,107	\$ 2,053,112	\$ 809,688	\$ 1,508,817	\$ 573,992	\$ 983,745	\$ 6,716,461	\$ 6,546,162	
Payroll taxes	55,438	144,601	57,029	106,270	40,428	69,288	473,054	458,955	
Employee benefits	173,207	451,799	178,175	332,024	126,310	216,479	1,477,994	1,496,712	
Total compensation and related expenses	1,015,752	2,649,512	1,044,892	1,947,111	740,730	1,269,512	8,667,509	8,501,829	
Conservation and care of collection	17,875	45,145					63,020	54,571	
Operational expenses	151,221		368,273				519,494	704,535	
Exhibitions and community events	133,996	1,745,437	71,404		285,979	13,391	2,250,207	2,208,128	
Maintenance and repairs	37,009	113,040	6,890	89,088		1,816,036	2,062,063	2,347,652	
Administrative	88,897	168,107	116,302	722,887	154,580	242,735	1,493,508	1,392,096	
Professional and contract services	266,599	1,554,924	239,243	195,792	15,005	10,637	2,282,200	2,483,895	
Food service, net			190,569				190,569	253,632	
Bond interest						2,974,723	2,974,723	2,983,205	
Depreciation	72,797					6,886,075	6,958,872	9,279,484	
TOTAL EXPENSES	1,784,146	6,276,165	2,037,573	2,954,878	1,196,294	13,213,109	27,462,165	30,209,027	
Allocation of Building and Grounds	2,893,671	8,601,734	1,004,196	568,164	145,344	(13,213,109)	---	---	
Total Expenses	4,677,817	14,877,899	3,041,769	3,523,042	1,341,638	---	27,462,165	30,209,027	
Less expenses included with revenues on the Statement of Activities	---	---	(660,012)	---	---	---	(660,012)	(828,021)	
Total Expenses included in the expense section of the Statement of Activities	\$ 4,677,817	\$ 14,877,899	\$ 2,381,757	\$ 3,523,042	\$ 1,341,638	\$ ---	\$ 26,802,153	\$ 29,381,006	

See notes to financial statements.

**Sterling and Francine Clark Art Institute**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2020**

	<u>2020</u>	<u>Comparative</u> <u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
CHANGE IN NET ASSETS	\$ 3,421,008	\$ 5,772,275
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	6,958,872	9,279,484
Realized and unrealized losses (gains) on investments	(4,614,974)	(23,388,951)
(Gain) Loss on disposal of property	---	(3,500)
Interest and dividends receivable	122,600	255,447
Interest accrued on long term debt	5,390	5,228
Amortization of premium from long-term debt	(305,249)	(229,973)
Acquisitions for art and library collections	326,004	368,345
(Increase) decrease in operating assets:		
Unconditional promises to give	(8,844,421)	765,912
Other receivables	57,389	(156,468)
Inventory-museum shop	(7,535)	12,045
Prepaid expenses	8,079	139,807
Charitable trusts receivable	(3,497,135)	(1,117,755)
Increase (decrease) in operating liabilities:		
Accounts payable and other liabilities	<u>(937,165)</u>	<u>746,823</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(7,307,137)</u>	<u>(7,551,281)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from net investment transactions	8,340,767	6,884,780
Payments for property and equipment	(427,704)	(642,032)
Proceeds from disposal of property	---	3,500
Mortgages granted	---	(200,000)
Principal payments on mortgages receivable	112,196	10,481
Acquisitions for art and library collections	<u>(326,004)</u>	<u>(368,345)</u>
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<u>7,699,255</u>	<u>5,688,384</u>
<b>INCREASE IN CASH AND EQUIVALENTS</b>	392,118	(1,862,897)
Cash and equivalents, beginning	<u>2,457,605</u>	<u>4,320,502</u>
<b>CASH AND EQUIVALENTS, ENDING</b>	<u>\$ 2,849,723</u>	<u>\$ 2,457,605</u>

See notes to financial statements.

**STERLING AND FRANCINE CLARK ART INSTITUTE****NOTES TO FINANCIAL STATEMENTS****June 30, 2020****NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Nature of Activities**

The Sterling and Francine Clark Art Institute, (the “Clark”) is a nonprofit charitable corporation which advances scholarship and the public understanding of art through the preservation, enhancement, presentation, and interpretation of its collections, and through a variety of programs that both address its diverse audiences and serve the art history and museum fields.

**Change in Accounting Principle**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, (*Revenue from Contracts with Customers*) (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Management’s analysis of this standard resulted in no changes in the way the Clark recognizes revenue, and therefore no changes to previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In June 2018, the FASB issued ASU No. 2018-08, (*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*) (Topic 958). This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Clark applied the new standard on a modified prospective basis. The adoption of the standard did not have an impact to the Clark’s financial statements for the year ended June 30, 2020.

In November 2016, the FASB issued ASU No. 2016-18, (*Statement of Cash Flows*) (Topic 230), *Restricted Cash* to address the diversity that exists in the classification and presentation of changes in restricted cash on the Statement of Cash Flows. The Clark applied the new standard on a retrospective basis. The adoption of the standard did not have an impact to the Clark’s Statement of Cash Flows for the year ended June 30, 2020.

**Income Taxes**

The Clark is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and state taxes under applicable state law. In addition, the Clark qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation under Section 509(a)(3).

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition. The Organization’s tax returns are subject to examination by taxing authorities for all years ending on or after June 30, 2017.

**Basis of Accounting and Financial Statement Presentation**

The financial statements of Sterling and Francine Clark Art Institute have been prepared on the accrual basis of accounting. The Clark is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restriction and net assets without donor restriction.

**Contributions**

Contributions received (excluding Art and Library Collection items) are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor restrictions.

**NOTE 1 - (Continued)**

All donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Promises to Give**

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Clark uses an allowance method for promises to give based upon management's analysis of the accounts and prior collection experience.

**Contributed Services**

Volunteers contribute services to the Clark in all aspects of its programs for which no value has been recognized in the financial statements because these services did not meet the criteria for recognition under generally accepted accounting principles.

**Cash and Equivalents**

For the purpose of the statement of cash flows, the Clark considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Inventories**

Inventories are stated at the lower of acquisition cost or net realizable value. Cost is determined by the first-in, first-out method.

**Investments**

Investments are presented in the financial statements at fair value. Unrealized gains and losses are included in the changes in net assets. Investment categories and their respective valuations are:

Cash and cash equivalents are valued at cost, which approximates fair value.

Corporate stocks, corporate and government bonds, mutual funds, and other publicly traded securities are generally valued based on the closing price listed on public securities pricing services.

Investments in privately held partnerships, including alternative investments such as private equity, real estate and hedge fund limited partnerships, and beneficial interest held by others are valued at fair value based on the NAV reported by the managers as described under Basis of Reporting below.

**Basis of Reporting – Alternative investments**

Marketable alternative investments include hedge funds and emerging market securities. Private investments, real estate, commodities and marketable alternative investments generally consist of funds and limited partnerships managed by external managers. These external investment vehicles often do not have quoted market prices. In the absence of quoted market prices, the fair value is determined by the external managers. Most of these external managers calculate the Clark's capital account or net assets value (NAV) in accordance with, or in a manner consistent with, US GAAP. As a practical expedient, the Clark is permitted under US GAAP to estimate the fair value of its investments managed by these external managers using the reported NAV provided by the external managers. Due to the inherent uncertainties of valuation, these estimated fair values may differ significantly from the values that would have been realized had a readily available market for these investments existed, and these differences could be material.

**NOTE 1 - (Continued)****Basis of Reporting – Beneficial interest held by others**

The supported organization reports its investments held in the pool at fair value in accordance with GAAP. Fair value is defined as the amount that would be received as a result of selling an asset or, the amount that would be paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measurement date.

Certain investment vehicles held in the pool do not have quoted market prices. These include 1) hedge fund investments with managers of global long/short equities and absolute return strategies; 2) investments in venture capital, buyout, real asset and real estate partnerships; and 3) certain other commingled funds. In the absence of quoted market prices of these investment vehicles, the fair value is determined by the supported organization based on information provided by external managers. Most of these external managers calculate the supported organization's capital account or net asset value (NAV) in accordance with, or in a manner consistent with, GAAP. GAAP permits the supported organization to estimate the fair value of these investments by using the reported NAV provided by the external managers as a practical expedient. Due to the inherent uncertainties of valuation, these estimated fair values may differ significantly from the values that would have been reported had a readily available market for these investments existed, and these differences could be material.

The Clark, with input from its investment managers, has performed due diligence in the valuation of its private equity, marketable alternative investments and beneficial interest held by others to ensure they are recorded at fair value as of June 30, 2020 and 2019.

Furthermore, while the Clark believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different estimate of fair value at the reporting date.

Investment income is recorded as:

- A change in net assets with donor restrictions if the terms of the gift require that it be added to the principal of a permanent endowment fund;
- A change in net assets with donor restrictions if the terms of the gift impose restrictions on the current use of the income or net realized and unrealized gains or losses; and
- A change in net assets without donor restrictions in all other cases.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments and related activity reported on the financial statements.

**Retirement Plans**

The Sterling and Francine Clark Art Institute Retirement Plan ("Plan") is a Defined Contribution (Money Purchase) plan which was effective as of April 1, 1963. Employees who work at least 1,000 hours per year are eligible after completing one year of employment. The Clark's contributions to this plan totaled \$512,000 and \$514,658 for the years ended June 30, 2020 and 2019.

In October 2002, the Clark established a Supplemental Defined Contribution Plan for its Highly Compensated Employees. The Clark's contribution to this Plan was \$7,000 and \$7,500 for the years ended June 30, 2020 and 2019.

**NOTE 1 - (Continued)****Property and Equipment**

The Clark capitalizes all expenditures for property and equipment with a useful life greater than one year and a cost in excess of \$5,000. Purchased equipment is recorded at cost. Donated equipment is recorded at fair market value at the date of the donation. Depreciation of buildings and equipment is provided over the estimated useful lives of the assets using the straight-line method.

**Art and Library Collections**

The Art and Library Collections, which were acquired through purchases and contributions since the Clark's inception, are included as an asset on the statement of financial position valued at a \$1 and are not considered assets in the monetary sense. Purchased collection items are reported as nonoperating items which decrease net assets without donor restrictions in the year in which the items are acquired, or in net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are excluded from the financial statements. Proceeds from deaccessions or insurance recovery are reflected as increases in the appropriate net asset classes.

The Clark's policy is to maintain and continue to acquire significant works of art for its collection and books for its library. Each item is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are continuously performed.

**Revenue Recognition***Admissions*

Ticket sales, which are nonrefundable, are recognized as revenue upon the Clark fulfilling its obligation of admitting and presenting the service to each ticketholder. Accordingly, the performance obligation is satisfied at a point in time.

*Memberships*

The Clark offers one-year, nonrefundable, memberships for which benefits include discounts on admissions, at the museum shop, and on various programs. Revenue is recognized when the membership is purchased.

*Contributions and Grants*

The Clark recognizes contributions when cash, securities, or other assets; unconditional promises to give or grants; or notification of a beneficial interest are received. Grants, which are exchange transactions, are recorded as services are provided. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

*Museum Shop Income*

Museum shop sales are recognized at the time of purchase.

**Functional Allocation of Expenses**

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function which are summarized in the statement of activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are:

- Buildings and Grounds expenses, including salaries and benefits, which are allocated on a square footage basis of the building and the location of the various programs and activities.
- Fundraising salaries and benefits which are allocated on a departmental basis as estimated percentages of time and effort of fundraising activities.

**Advertising**

The Clark expenses advertising costs as incurred. Advertising expense was \$264,520 and \$302,824 for the years ended June 30, 2020 and 2019.

**NOTE 1 - (Continued)****Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent Events**

Management has evaluated subsequent events through November 5, 2020, the date which the financial statements were available for issue, and has determined that there are no additional adjustments or disclosures required.

**Summarized Comparative Financial Information**

The financial information for the year ended June 30, 2019, presented for comparative purposes, is not intended to be a complete financial statement presentation. Certain items in the comparative prior year totals may have been reclassified to conform to the current year presentation.

**NOTE 2 - CONCENTRATION OF CREDIT RISK**

Financial instruments, which potentially subject the Clark to concentrations of credit risk, consist principally of cash and investments. The Clark maintains its unrestricted cash in various bank deposit accounts, which at times may exceed federally insured limits. Bank deposits at June 30, 2020 were \$2,822,758 of which \$1,532,148 was insured and \$1,290,610 was uninsured. The Clark has not experienced any losses in such accounts. The credit risk in regards to its investments is outlined in Note 1.

**NOTE 3 - CHARITABLE TRUSTS RECEIVABLE**

The Clark has been named as the beneficiary of several remainder trust agreements for which a third party has been named as the trustee. Amounts to be collected within the next fiscal year are reported as current assets. The present value of amounts to be received in future fiscal years is reported as long-term assets, net of discount rates of 6% to 7%. Amortization of the discount and changes in actuarial assumptions are recorded as an increase or decrease in contribution income within the net assets with donor restrictions on the statement of activities.

**NOTE 4 - INVESTMENTS**

Investments are presented in the financial statements at fair value. The table below details the fair value investment category at June 30:

	2020	Comparative 2019
	<u>2020</u>	<u>2019</u>
Invested cash	\$ 11,270,823	\$ 591,025
Beneficial interest held by others	352,398,749	320,685,959
Corporate stocks	---	21,333,100
Commodities	---	313,952
Corporate and government bonds	---	22,097,972
Private investments - offshore	5,214,220	7,453,035
Real estate funds	3,985,470	4,120,012
Total long-term investments	<u>\$ 372,869,262</u>	<u>\$ 376,595,055</u>

(Continued)

**NOTE 4 - (Continued)****Investment returns are summarized as follows:**

	2020	Comparative 2019
	<u>                    </u>	<u>                    </u>
Net gains on investments	\$ 4,614,974	\$ 23,388,951
Interest and dividends	1,711,788	4,802,419
Less share of investment pool expenses	<u>(951,806)</u>	<u>(594,161)</u>
Net investment return	<u>\$ 5,374,956</u>	<u>\$ 27,597,209</u>
Investment support for operating activities	\$ 15,401,160	\$ 15,854,743
Net investment income (deficit) after operating support	<u>(10,026,204)</u>	<u>11,742,466</u>
Net investment return	<u>\$ 5,374,956</u>	<u>\$ 27,597,209</u>

**Beneficial interest held by others**

In February 2017, the Clark entered into a participation agreement with a supported organization wherein the Clark will transfer substantially all of its investment portfolio over a three-year period to the supported organization to invest in the supported organization's investment pool. The supported organization will manage the investments on the Clark's behalf. The funds are invested in accordance with the supported organization's investment policies and objectives which are closely aligned with the Clark's policies and objectives as disclosed in Note 11. As of June 30, 2020, the supported organization has received \$312,000,000 pursuant to this agreement, which is reflected as beneficial interest held by others and is included within long-term investments on the Statement of Financial Position. The agreement specifies that the Clark may not withdraw funds or receive distributions from the pool prior to July 1, 2020.

**Spending Policy**

The Board directed spending policy is a 5% annual draw of a calculated average of the past 12 quarters of market value of investments. For the years ended June 30, 2020 and 2019, the annual draw to support operations and museum programs including board designated reserve funds for exhibitions and publications, and funding for capital improvements and equipment was \$16.14 million and \$16.02 million, respectively, while the annual draw to support a reserve fund available for art and library acquisitions was \$230,001 for each year. Additional draws for non-operating expenses have been made with Board approval.

**NOTE 5 - PROMISES TO GIVE****Unconditional Promises**

Unconditional promises are included in the financial statements as pledges receivable and revenue in the appropriate net asset category. Pledges with a maturity of more than one year are recorded after discounting to the present value of the future cash flows using a discount rate of 7%.

(Continued)

**NOTE 5 – (Continued)**

Unconditional promises on June 30 are expected to be realized in the following periods:

	2020	Comparative 2019
In one year or less	\$ 7,252,711	\$ 1,943,035
Between one year and five years	7,704,589	3,141,610
Less: Unamortized discount	(961,285)	(398,547)
Allowance for uncollectibles	<u>(1,958,551)</u>	<u>(1,493,055)</u>
Total	12,037,464	3,193,043
Portion to be realized within one year	<u>(6,890,076)</u>	<u>(1,845,883)</u>
Unconditional promises to give, long-term	<u>\$ 5,147,388</u>	<u>\$ 1,347,160</u>

The table below presents information about the changes in unconditional promises to give for the year ended June 30, 2020:

Balance July 1, 2019	\$ 3,193,043
New promises received	16,641,578
Payments received	(6,768,922)
Change in discount included in contribution revenue in the statement of activities	(562,738)
Change in allowance included in contribution revenue in the statement of activities	<u>(465,497)</u>
Balance June 30, 2020	<u>\$ 12,037,464</u>

**NOTE 6 - PROPERTY AND EQUIPMENT CONSISTED OF THE FOLLOWING AT JUNE 30:**

	2020	Comparative 2019
Land	\$ 1,472,802	\$ 1,472,802
Buildings and improvements	243,784,639	243,580,280
Furniture and equipment	9,082,014	8,895,633
Vehicles	<u>214,588</u>	<u>167,192</u>
Total	254,554,043	254,115,907
Accumulated depreciation	<u>(58,341,448)</u>	<u>(51,382,576)</u>
Subtotal	196,212,595	202,733,331
Construction in progress	<u>87,003</u>	<u>97,435</u>
Property and equipment, net	<u>\$ 196,299,598</u>	<u>\$ 202,830,766</u>

Depreciation expense was \$6,958,872 and \$9,279,484 for the years ended June 30, 2020 and 2019, respectively. The change in net assets from operating activities on page 5, which is a deficit of \$(1,831,905) and \$(5,868,980) respectively, for the years ended June 30, 2020 and 2019, would have been a surplus of \$5,126,967 and \$6,321,355 before deducting depreciation and bond interest expense.

During the year ended June 30, 2019, the Clark amended and adopted its capitalization policy with an updated capitalization threshold and specified depreciable lives for various asset classes. As a result of adopting this policy, the Clark analyzed the classification and useful lives applied to certain existing capital assets and applied the new policy resulting in, for many of the assets, shorter depreciable lives and, consequently, increased depreciation expense in fiscal 2019.

**NOTE 7 - MORTGAGES RECEIVABLE - EMPLOYEES**

The Clark has provided mortgage loans with below-market to market interest rates to employees for recruitment and retention purposes. The terms of these mortgage loans range from 18 to 20 years and the interest rates range from 1.625% to 3.31% per annum. Participating employees are required to make periodic principal and interest mortgage payments.

**NOTE 8 - LONG-TERM DEBT CONSISTED OF THE FOLLOWING AT JUNE 30:**

	2020	Comparative 2019
\$25,000,000 Massachusetts Health and Education Facilities Authority Revenue Bonds Series 2010, originally due July 2040 and paid in full July 2020, interest only payments at 5% until 2020, partially refinanced during FY 2017 using the proceeds of the \$56,530,000 Series 2016 bond issue disclosed below	\$ 885,000	\$ 885,000
\$20,160,000 Massachusetts Development Finance Agency Revenue Bonds Series 2015, due July 2036, interest only payments at 5% until 2032	20,160,000	20,160,000
\$56,530,000 Massachusetts Development Finance Agency Revenue Bonds Series 2016, due July 2041, interest only payments at rates ranging from 2.375% to 5% until 2021	56,530,000	56,530,000
\$150,000 note payable, due September 2034, interest accrued at 2.95% per annum, payable upon maturity	<u>179,632</u>	<u>174,242</u>
Total long-term debt	77,754,632	77,749,242
Amortizable bond premiums and costs of issuance	<u>6,733,715</u>	<u>7,038,964</u>
Amount due within one year	<u>885,000</u>	<u>---</u>
Amount due after one year	<u>\$ 83,603,347</u>	<u>\$ 84,788,206</u>

The above debt requires the following principal payments for the years ending June 30,

2021	\$ 885,000
2022	1,135,000
2023	1,175,000
2024	1,240,000
2025	2,190,000
Thereafter through 2042	<u>71,129,632</u>
Total	<u>\$ 77,754,632</u>

Interest expense paid for the years ended June 30, 2020 and 2019 was \$3,279,972 and \$3,207,950. Bond premiums and debt issuance costs are amortized over the life of the related underlying debt.

**NOTE 9 - LINE OF CREDIT**

The Clark has the ability to borrow up to \$20 million on a line of credit with J.P. Morgan, at a floating interest rate of prime or a short-term fixed rate based on market rates in effect at the time of borrowing, collateralized by and related to the portion of the investment portfolio of the Clark held with J.P. Morgan. The line of credit has a final maturity date of June 30, 2021. No funds were borrowed during the fiscal year ended June 30, 2020.

**NOTE 10 - NET ASSETS CONSISTED OF THE FOLLOWING:**

	Restricted as of June 30, 2019	Revenue Year Ended June 30, 2020	Releases Year Ended June 30, 2020	Restricted as of June 30, 2020
<b>Subject to expenditure for specified purpose:</b>				
Research and academic programs	\$ 803,253	\$ 18,768	\$ 281,775	\$ 540,246
Museum programs	8,316,063	3,774,148	1,160,876	10,929,335
Capital expenditures	5,335,699	(837,123)	288,025	4,210,551
Total subject to expenditure for specified purpose	<u>14,455,015</u>	<u>2,955,793</u>	<u>1,730,676</u>	<u>15,680,132</u>
<b>Subject to passage of time:</b>	<u>3,267,170</u>	<u>3,436,024</u>	<u>---</u>	<u>6,703,194</u>
<b>Subject to the Clark's spending policy and appropriation:</b>				
Investment in perpetuity (including amounts above original gifts of \$102.6 million) which, once appropriated, is expendable to support:				
Clark Fund, income expendable	21,723,701			21,723,701
Manton Fund, income purpose restricted	68,320,665	1,187,161	3,288,666	66,219,160
Starr Foundation, income purpose restricted	7,722,976	134,197	371,493	7,485,680
Other endowment funds, income purpose restricted	<u>13,096,415</u>	<u>15,335,115</u>	<u>509,273</u>	<u>27,922,257</u>
Total net assets with donor restrictions subject to the Clark's spending policy and appropriation	<u>110,863,757</u>	<u>16,656,473</u>	<u>4,169,432</u>	<u>123,350,798</u>
Total net assets with donor restrictions	<u>\$ 128,585,942</u>	<u>\$ 23,048,290</u>	<u>\$ 5,900,108</u>	<u>\$ 145,734,124</u>

Net assets without donor restrictions for the period ending June 30, 2020 includes \$8,473,173 of Board Designated funds that are, in practice, used exclusively for the acquisition of art.

**NOTE 11 - ENDOWMENTS**

The Clark's endowment consists of individual funds restricted in perpetuity by donors, established for a variety of purposes. It does not include funds without donor restrictions designated by the Board of Trustees which do not function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Clark has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (MA 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, the Organization classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the directive of the applicable donor gift instrument at the time the accumulation is added to the fund.

(Continued)

**NOTE 11 – (Continued)**

In accordance with MA UPMIFA, the Clark considers the following factors when making a determination to either appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Clark, and (7) the Clark's investment policies.

The Clark has adopted investment and spending policies, approved by the Board of Trustees, that attempt to provide a predictable stream of funding to programs supported by its endowment funds while maintaining its primary objective to ensure that the purchasing power of gifts and donations is preserved over time taking into account inflation, management fees, and distributions to support operations, capital expenditures, and acquisitions. Accordingly, the Clark's investment strategy is to pursue investments which will provide reasonably stable, long-term returns (income and appreciation). To accomplish this, the Clark's investment portfolio is invested in a diversified portfolio and the "total return" concept used in evaluating the portfolio's return and determining annual distributions. The Investment Spending Policy approved by the Board is disclosed in Note 4.

The Clark's investment policy's primary objectives are to achieve optimum rates of return commensurate with the preservation of principal, given the asset mix, credit quality, and specific diversification guidelines and restrictions. From time to time, the fair market value of assets associated with donor restricted endowment funds may fall below the amount of the principal or book value. In these circumstances and in compliance with relevant laws and regulations, the Board of Trustees may review spending and regulate this if necessary. The Board of Trustees will consider the preservation of capital, requirements of the specified program or activities, donor intent, and any other relevant issues.

As of the fiscal year-ending June 30, 2020, no donor restricted endowment funds are below the donor required principal amount.

Donor restricted endowment activity consisted of the following during the year ended June 30, 2020:

Endowment net assets, beginning of year	<u>\$ 110,863,757</u>
Allocated investment return	
Investment income	505,573
Realized and unrealized gains (losses)	1,363,024
Less share of investment pool expenses	<u>(281,114)</u>
Total allocated investment return	1,587,483
Contributions	15,068,990
Released from restrictions	<u>(4,169,432)</u>
Subtotal	<u>12,487,041</u>
Endowment net assets, end of year	<u><u>\$ 123,350,798</u></u>

**NOTE 12 - FAIR VALUE MEASUREMENTS**

The following methods and assumptions were used by the Clark in estimating its fair value disclosures.

**Cash and equivalents:** The carrying amounts reported in the Statement of Financial Position approximate fair values because of the short maturities of those instruments (Level 1).

**Investments:** The fair values of invested cash and marketable securities are based on quoted market prices for those or similar investments (Level 1).

**Unconditional promises to give:** The fair value of promises to give is estimated, at the time of the pledge, by calculating the present value of the future expected payments from the donors (Level 3) and applying an allowance for uncollectibles.

**Charitable Remainder Trust:** The fair value of the charitable remainder trust receivable of \$7,637,317 was estimated based upon the present value at 6% and the life expectancy tables for a required 6% annual payment to the trust benefactor. Information from the trustee is not readily available as to the current fair market value of the assets held in the trust (Level 3).

**Alternative investments and beneficial interest held by others:** In accordance with Subtopic 820-10, certain investments that are measured at fair value using the practical expedient have not been classified in the fair value hierarchy. As such, the fair value amounts of investments presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The estimated fair values of the Clark's financial assets, none of which are held for trading purposes, are as follows:

	<u>NAV as Practical Expedient</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Fair Value</u>
<b>Financial assets:</b>				
Cash and equivalents	\$ ---	\$ 2,849,723	\$ ---	\$ 2,849,723
Unconditional promises to give			12,037,464	12,037,464
Charitable Remainder Trust			7,637,317	7,637,317
Subtotal	<u>---</u>	<u>2,849,723</u>	<u>19,674,781</u>	<u>22,524,504</u>
<b>Investments:</b>				
Invested cash		11,270,823		11,270,823
Beneficial interest held by others	352,398,749			352,398,749
Private investments - offshore	5,214,220			5,214,220
Real estate funds	3,985,470			3,985,470
Total Investments	<u>361,598,439</u>	<u>11,270,823</u>	<u>---</u>	<u>372,869,262</u>
Total Financial assets	<u>\$ 361,598,439</u>	<u>\$ 14,120,546</u>	<u>\$ 19,674,781</u>	<u>\$ 395,393,766</u>

(Continued)

**NOTE 12 – (Continued)****Additional Fair Value Disclosure:**

The Clark uses net asset value (NAV) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value (e.g. private equity partnerships) and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following required disclosure lists these NAV type investments by major category.

<u>NAV Type Investments</u>	<u>Strategy</u>	<u>Fair Value</u>	<u># of Funds/ Vehicles</u>	<u>Redemption Terms</u>
Beneficial interest held by others	Diversified strategies - objective driven	\$ 352,398,749	1	90 days notice, subject to limitations in Note 4
Private investments - offshore	Venture capital and LBOs - Offshore	5,214,220	12	N/A
Real estate and infrastructure	Real estate investments	<u>3,985,470</u>	<u>2</u>	N/A
Total NAV type investments		<u>\$ 361,598,439</u>	<u>15</u>	

The 15 funds reported on the preceding schedule, excluding the beneficial interest held by others, have no remaining lock-up periods at June 30, 2020.

The Clark is obligated, under certain limited partnership agreements, to make additional capital contributions up to contractual levels. The timing and amounts of the contributions are determined by the general partners. As of June 30, 2020, the Clark's unfunded commitments total \$1,118,940. See Note 4 for the funding commitment for the beneficial interest held by others.

**NOTE 13 – LIQUIDITY**

The Clark's endowment funds consist of donor-restricted endowments and various investments ("investment pool"). Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 4, Spending Policy, the investment pool has a spending rate of 5 percent. \$16.75 million of appropriations from the investment pool will be available within the next 12 months.

As part of the Clark's liquidity management, it has a policy to structure its liquid financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Clark shall have various sources of liquidity at its disposal to accomplish this, including cash and cash equivalents (business checking and sweep accounts), highly-liquid investments, money market accounts, current unconditional promises to give, other accounts receivable, and an available line of credit of \$20 million. Financial assets in excess of daily cash requirements are to be invested in sweep accounts and money market funds.

(Continued)

**NOTE 13 – (Continued)**

Although the Clark does not intend to spend more from its investment pool other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process described in Note 4, Spending Policy, funds could be made available, if necessary, from the Clark's line of credit.

As stated in Note 4 - Investments, the Clark has funds in a beneficial interest held by others. According to a participation agreement between the Clark and a supported organization, the Clark may not withdraw funds or receive distributions from the pool prior to July 1, 2020. After this date, funds may be withdrawn with 90 days' notice.

Liquid financial assets will not include amounts that are not available for general use because of external limits such as contractual or donor-imposed restrictions or internal actions from the Board of Trustees such as Board Designated Net Assets.

An analysis will be performed at least quarterly to ensure that there are sufficient liquid assets available to meet 60 days of general expenditures and current debt payments and to also consider any Institute-wide risks and the effect they may have on liquidity. Risks to consider may include, but are not limited to, recently passed or pending legislation, the status of the Clark's financial situation, timeliness of payments of pledges receivable from grants and donors, political climate, economic trends, and the condition of financial markets.

The following reflects the Clark's financial assets as of the date of the statement of financial position, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position. Amounts already appropriated from the donor-restricted endowment for general expenditure within one year of the date of the statement of financial position have not been subtracted as unavailable.

	<u>2020</u>
Financial assets at June 30:	
Cash and cash equivalents	\$ 2,849,723
Interest and dividends receivable	1,778
Contributions receivable	12,037,464
Other receivables	131,254
Investments	<u>372,869,262</u>
Total financial assets	<u>387,889,481</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	145,734,124
Less net assets with purpose restrictions to be met in less than a year	<u>(2,187,711)</u>
Total amount not available to be used within one year	<u>143,546,413</u>
Less amounts set aside for operating and other reserves that can be drawn upon if the Board of Directors approves such action:	
Acquisition of art	<u>8,473,173</u>
Add endowment fund appropriation for following year	<u>16,750,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 252,619,895</u>

**NOTE 14 - CARES ACT**

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The Clark made the determination to close to the public and suspend all events effective March 13, 2020. In addition, as of March 23, 2020, Massachusetts Governor Charlie Baker ordered the closure of the physical location of every “non-life sustaining” and “non-essential” business for an extended period of time. On July 12, 2020, the Clark reopened to the public in a limited capacity as ordered by the state. As part of the CARES act, the Clark is able to apply for employee retention credits (ERC) for the period March 13, 2020 through December 31, 2020. In October 2020, the Clark submitted for an ERC of \$475,020 for fiscal 2020 which is reported separately on the statement of activities. The pandemic and ongoing mandatory safety standards for all business, had and continues to have an impact on the Organization’s programs, which usually represent 5% of revenues, gains, and other support for a fiscal year.