**STERLING AND FRANCINE**
**CLARK ART INSTITUTE**

**Financial Statements**

**June 30, 2019**

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Adelson & Company PC
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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
**STERLING AND FRANCINE CLARK ART INSTITUTE**

### 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, 2019, 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.

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***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, 2019, 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 Clark implemented the provisions of the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958).* Our opinion is not modified with respect to this matter.

**Report on Summarized Comparative Information**

We have previously audited the Sterling and Francine Clark Art Institute's 2018 financial statements, and our report dated October 10, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Adelson + Company PC

ADELSON & COMPANY PC

October 18, 2019

**Sterling and Francine Clark Art Institute**
**STATEMENT OF FINANCIAL POSITION**
**June 30, 2019**

| | 2019 | Comparative 2018 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents (Note 2) | $ 2,457,605 | $ 4,320,502 |
| Interest and dividends receivable | 124,378 | 379,825 |
| Unconditional promises to give-current (Note 5) | 1,845,883 | 1,985,207 |
| Other receivables | 188,643 | 32,175 |
| Inventory-museum shop | 424,175 | 436,220 |
| Prepaid expenses | 324,084 | 463,891 |
| Total current assets | 5,364,768 | 7,617,820 |
| Other assets | | |
| Long-term investments, at fair value (Note 4) | 376,595,055 | 360,090,884 |
| Charitable trusts receivable (Note 3) | 4,140,182 | 3,022,427 |
| Unconditional promises to give- long-term (Note 5) | 1,347,160 | 1,973,748 |
| Mortgages receivable-employees (Note 7) | 348,769 | 159,250 |
| Property and equipment, net (Note 6) | 202,830,766 | 211,468,218 |
| Art and library collections | 1 | 1 |
| TOTAL ASSETS | $ 590,626,701 | $ 584,332,348 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 1,591,724 | $ 884,045 |
| Accrued salaries and payroll liabilities | 844,200 | 806,585 |
| Total current liabilities | 2,435,924 | 1,690,630 |
| Other long-term liabilities | 5,137 | 3,608 |
| Long-term debt (Note 8) | 84,788,206 | 85,012,951 |
| TOTAL LIABILITIES | 87,229,267 | 86,707,189 |
| Net assets (Note 10) | | |
| Without donor restrictions | 374,811,492 | 374,740,375 |
| With donor restrictions | 128,585,942 | 122,884,784 |
| Total net assets | 503,397,434 | 497,625,159 |
| TOTAL LIABILITIES AND NET ASSETS | $ 590,626,701 | $ 584,332,348 |

See notes to financial statements.

**Sterling and Francine Clark Art Institute**
**STATEMENT OF ACTIVITIES**
**For the Year Ended June 30, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total 2019 | Comparative Total 2018 |
|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | |
| REVENUE, GAINS AND OTHER SUPPORT | | | | |
| Investment support for operating activities (Note 4) | $ 11,853,619 | $ 4,001,124 | $ 15,854,743 | $ 16,246,341 |
| Museum shop, net | 66,112 | | 66,112 | 19,104 |
| Admissions | 1,104,638 | | 1,104,638 | 1,063,236 |
| Exhibition fees | 43,946 | | 43,946 | 40,767 |
| Public education programs | 26,560 | | 26,560 | 11,165 |
| Grant income | 57,000 | 391,500 | 448,500 | 981,500 |
| Contributions | 542,000 | 3,689,884 | 4,231,884 | 4,424,450 |
| Membership-Friends of the Clark | 1,310,851 | | 1,310,851 | 1,330,094 |
| Occupancy, Event and other income | 424,792 | | 424,792 | 395,478 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program purposes | 5,469,060 | (5,469,060) | --- | --- |
| TOTAL REVENUES, GAINS AND OTHER SUPPORT | 20,898,578 | 2,613,448 | 23,512,026 | 24,512,135 |
| EXPENSES | | | | |
| Program Services | | | | |
| Research and academic programs | 5,484,256 | | 5,484,256 | 4,644,042 |
| Museum programs | 16,315,193 | | 16,315,193 | 14,051,321 |
| External relations | 2,633,120 | | 2,633,120 | 2,757,142 |
| TOTAL PROGRAM EXPENSES | 24,432,569 | | 24,432,569 | 21,452,505 |
| Support Services | | | | |
| Management and general | 3,554,161 | | 3,554,161 | 3,317,637 |
| Fund-raising | 1,394,276 | | 1,394,276 | 1,108,487 |
| TOTAL SUPPORT EXPENSES | 4,948,437 | | 4,948,437 | 4,426,124 |
| TOTAL EXPENSES | 29,381,006 | --- | 29,381,006 | 25,878,629 |
| CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES (Note 6) | (8,482,428) | 2,613,448 | (5,868,980) | (1,366,494) |
| NON-OPERATING ACTIVITIES | | | | |
| Net investment income after operating support | 8,667,679 | 3,074,787 | 11,742,466 | 16,090,699 |
| Contributions | 25,521 | 238,113 | 263,634 | 84,377 |
| Net assets released from restriction | 225,190 | (225,190) | --- | --- |
| Disposal of Property and Equipment | 3,500 | | 3,500 | (1,513,328) |
| Collection items purchased | (368,345) | --- | (368,345) | (1,481,553) |
| TOTAL NON-OPERATING ACTIVITIES | 8,553,545 | 3,087,710 | 11,641,255 | 13,180,195 |
| CHANGE IN NET ASSETS | 71,117 | 5,701,158 | 5,772,275 | 11,813,701 |
| Net assets, beginning | 374,740,375 | 122,884,784 | 497,625,159 | 485,811,458 |
| NET ASSETS, ENDING | $ 374,811,492 | $ 128,585,942 | $ 503,397,434 | $ 497,625,159 |

See notes to financial statements.

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

**For the Year Ended June 30, 2019**

| | Program Services | | | Support Services | | | | |
|---|---|---|---|---|---|---|---|---|
| | Research and Academic Programs | Museum Programs | External Relations | Management and General | Fund-Raising | Buildings and Grounds | Total 2019 | Comparative 2018 |
| Compensation and Related Expenses | | | | | | | | |
| Salaries | $ 834,557 | $ 1,884,137 | $ 728,210 | $ 1,444,339 | $ 654,724 | $ 1,000,195 | $ 6,546,162 | $ 6,145,021 |
| Employee benefits | 249,325 | 562,889 | 217,544 | 431,499 | 195,600 | 298,810 | 1,955,667 | 1,918,557 |
| Total compensation and related expenses | 1,083,882 | 2,447,026 | 945,754 | 1,875,838 | 850,324 | 1,299,005 | 8,501,829 | 8,063,578 |
| Conservation and care of art collection | | 54,571 | | | | | 54,571 | 60,721 |
| Operational expenses | 196,453 | | 508,082 | | | | 704,535 | 655,596 |
| Exhibitions and community events | 142,950 | 1,805,019 | 75,693 | | 166,408 | 18,058 | 2,208,128 | 2,113,943 |
| Maintenance and repairs | 62,905 | 128,018 | 14,231 | 41,923 | | 2,100,575 | 2,347,652 | 1,885,821 |
| Administrative | 79,713 | 135,128 | 137,864 | 700,400 | 156,355 | 182,636 | 1,392,096 | 1,478,101 |
| Professional and contract services | 363,803 | 1,394,245 | 317,452 | 252,281 | 46,284 | 109,830 | 2,483,895 | 2,512,220 |
| Food service, net | | | 253,632 | | | | 253,632 | 223,707 |
| Bond interest | | | | | | 2,983,205 | 2,983,205 | 2,987,666 |
| Depreciation | 72,354 | --- | --- | --- | --- | 9,207,130 | 9,279,484 | 6,677,007 |
| TOTAL EXPENSES | 2,002,060 | 5,964,007 | 2,252,708 | 2,870,442 | 1,219,371 | 15,900,439 | 30,209,027 | 26,658,360 |
| Allocation of Building and Grounds | 3,482,196 | 10,351,186 | 1,208,433 | 683,719 | 174,905 | (15,900,439) | --- | --- |
| Total Expenses | 5,484,256 | 16,315,193 | 3,461,141 | 3,554,161 | 1,394,276 | --- | 30,209,027 | 26,658,360 |
| Less expenses included with revenues on the Statement of Activities | --- | --- | (828,021) | --- | --- | --- | (828,021) | (779,731) |
| Total Expenses included in the expense section of the Statement of Activities | $ 5,484,256 | $ 16,315,193 | $ 2,633,120 | $ 3,554,161 | $ 1,394,276 | $ --- | $ 29,381,006 | $ 25,878,629 |

See notes to financial statements.

**Sterling and Francine Clark Art Institute**
**STATEMENT OF CASH FLOWS**
**For the Year Ended June 30, 2019**

| | 2019 | Comparative 2018 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| CHANGE IN NET ASSETS | $ 5,772,275 | $ 11,813,701 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 9,279,484 | 6,677,007 |
| Realized and unrealized losses (gains) on investments | (23,388,951) | (25,889,710) |
| (Gain) Loss on disposal of property | (3,500) | 1,513,328 |
| Interest and dividends receivable | 255,447 | 120,982 |
| Interest accrued on long term debt | 5,228 | 7,142 |
| Amortization of premium from long-term debt | (229,973) | (220,657) |
| Acquisitions for art and library collections | 368,345 | 1,481,553 |
| (Increase) decrease in operating assets: | | |
| Unconditional promises to give | 765,912 | 1,329,075 |
| Other receivables | (156,468) | 39,616 |
| Inventory-museum shop | 12,045 | 32,529 |
| Prepaid expenses | 139,807 | (232,129) |
| Charitable trusts receivable | (1,117,755) | (53,377) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and other liabilities | 746,823 | (527,022) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (7,551,281) | (3,907,962) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from net investment transactions | 6,884,780 | 6,179,098 |
| Payments for property and equipment | (642,032) | (1,799,974) |
| Proceeds from disposal of property | 3,500 | 1,081,724 |
| Mortgages granted | (200,000) | --- |
| Principal payments on mortgages receivable | 10,481 | 141,482 |
| Acquisitions for art and library collections | (368,345) | (1,481,553) |
| NET CASH FROM INVESTING ACTIVITIES | 5,688,384 | 4,120,777 |
| INCREASE IN CASH AND EQUIVALENTS | (1,862,897) | 212,815 |
| Cash and equivalents, beginning | 4,320,502 | 4,107,687 |
| CASH AND EQUIVALENTS, ENDING | $ 2,457,605 | $ 4,320,502 |

See notes to financial statements.

**STERLING AND FRANCINE CLARK ART INSTITUTE**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

## 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

The Clark adopted the Financial Accounting Standards Board Accounting Standards Update (Update) 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which updates and supersedes previous guidance for certain disclosures. Under the new guidance, the three-category classification of net assets is now reported in two categories: with donor restrictions and without donor restrictions. Additional requirements include expanded reporting to present expenses by function and natural classification (Statement of Functional Expenses) and additional disclosure on the Clark's liquidity management policy (Note 13). As required by the Update, the Clark has reclassified net assets retrospectively. Unrestricted net assets of $374,740,375 at June 30, 2018 have been reclassified to net assets without donor restrictions on the Statement of Financial Position and the Statement of Activities. Temporarily restricted net assets of $15,499,327 and permanently restricted net assets of $107,385,457 at June 30, 2018 have been restated as net assets with donor restrictions of $122,884,784 on the Statement of Financial Position and the Statement of Activities. As permitted by the Update, disclosures on liquidity management and the functional allocation of expenses have been omitted for periods starting before July 1, 2018.

### 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, 2016.

### Basis of Accounting and Financial Statement Presentation

The financial statements of Sterling and Francine Clark Art Institute have been prepared on the accrual basis and the presentation follows the Financial Accounting Standards Board's standards for not-for-profit organizations. 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 restriction or net assets with donor restrictions, depending on the existence or nature of any donor restrictions.

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.

**NOTE 1 - (Continued)**

**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. 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, 2019 and 2018.

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 six months of employment. The Clark's contributions to this plan totaled $514,658 and $522,131 for the years ended June 30, 2019 and 2018.

In October 2002, the Clark established a Supplemental Defined Contribution Plan for its Highly Compensated Employees. The Clark's contribution to this Plan was $7,500 and $2,616 for the years ended June 30, 2019 and 2018.

**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.

**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 $302,824 and $284,187 for the years ended June 30, 2019 and 2018.

**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 October 18, 2019, the date which the financial statements were available for issue, and has determined that there are no additional adjustments or disclosures required.

**Summarized Financial Information**
The financial information for the year ended June 30, 2018 is presented for comparative purposes, and is not intended to be a complete financial statement presentation. Certain items in the prior year totals may have been reclassified to conform to the current year's 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, 2019 were $2,544,564 of which $1,350,457 was insured and $1,194,107 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 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:

| | 2019 | Comparative 2018 |
|---|---|---|
| Invested cash | $ 591,025 | $ 1,221,357 |
| Beneficial interest held by others | 320,685,959 | 201,909,499 |
| Corporate stocks | 21,333,100 | 83,766,164 |
| Commodities | 313,952 | 1,262,506 |
| Corporate and government bonds | 22,097,972 | 59,607,909 |
| Hedge funds | --- | 49,607 |
| Private investments - offshore | 7,453,035 | 7,792,053 |
| Real estate funds | 4,120,012 | 4,481,789 |
| Total long-term investments | $ 376,595,055 | $ 360,090,884 |

**Investment returns are summarized as follows:**

| | 2019 | Comparative 2018 |
|---|---|---|
| Net gains on investments | $ 23,388,951 | $ 25,889,710 |
| Interest and dividends | 4,802,419 | 6,684,238 |
| Less investment fees | (594,161) | (236,908) |
| Net investment return | $ 27,597,209 | $ 32,337,040 |
| | | |
| Investment support for operating activities | $ 15,854,743 | $ 16,246,341 |
| Net investment income after operating support | 11,742,466 | 16,090,699 |
| Net investment return | $ 27,597,209 | $ 32,337,040 |

**NOTE 4 - (Continued)**

**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, 2019, the supported organization has received $290,000,000 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, 2019 and 2018, 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 $16.15 million and $16.25 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%.

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

| | 2019 | Comparative 2018 |
|---|---|---|
| In one year or less | $ 1,943,035 | $ 2,088,376 |
| Between one year and five years | 3,141,610 | 4,079,399 |
| Less: Unamortized discount | (398,547) | (476,770) |
| Allowance for uncollectibles | (1,493,055) | (1,732,050) |
| Total | 3,193,043 | 3,958,955 |
| Portion to be realized within one year | (1,845,883) | (1,985,207) |
| Unconditional promises to give, long-term | $ 1,347,160 | $ 1,973,748 |

**NOTE 5 – (Continued)**

The table below presents information about the changes in unconditional promises to give for the year ended June 30, 2019:

| | | |
|---|---|---|
| Balance July 1, 2018 | $ | 3,958,955 |
| New promises received | | 670,591 |
| Collections | | (1,553,722) |
| Change in discount included in contribution revenue in the statement of activities | | 78,223 |
| Change in allowance included in contribution revenue in the statement of activities | | 38,996 |
| Balance June 30, 2019 | $ | 3,193,043 |

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

| | 2019 | Comparative 2018 |
|---|---|---|
| Land | $ 1,472,802 | $ 1,472,802 |
| Buildings and improvements | 243,580,280 | 249,006,766 |
| Furniture and equipment | 8,895,633 | 2,921,964 |
| Vehicles | 167,192 | 167,192 |
| Total | 254,115,907 | 253,568,724 |
| Accumulated depreciation | (51,382,576) | (42,103,091) |
| Subtotal | 202,733,331 | 211,465,633 |
| Construction in progress | 97,435 | 2,585 |
| Property and equipment, net | $ 202,830,766 | $ 211,468,218 |

Depreciation expense was $9,279,485 and $6,677,007 for the years ended June 30, 2019 and 2018, respectively.

The change in net assets from operating activities on page 5, which is a deficit of $(5,868,980) and $(1,366,494) respectively, for the years ended June 30, 2019 and 2018, would have been a surplus of $6,321,355 and $8,298,179 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 the current fiscal year.

**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:**

| | 2019 | Comparative 2018 |
|---|---|---|
| $25,000,000 Massachusetts Health and Education Facilities Authority Revenue Bonds Series 2010, due July 2040, 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 | 174,242 | 169,014 |
| Total long-term debt | 77,749,242 | 77,744,014 |
| Amortizable bond premiums and costs of issuance | 7,038,964 | 7,268,937 |
| Amount due after one year | $ 84,788,206 | $ 85,012,951 |

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 |
| Thereafter 2024 through 2042 | 74,554,242 |
| Total | $ 77,749,242 |

Interest expense paid for the years ended June 30, 2019 and 2018 was $3,207,950 and $3,201,180. Bond premiums and debt issuance costs are amortized over the life of the related underlying debt.

**NOTE 9 - LINE OF CREDIT**

The Clark has a $20 million 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 the investment portfolio of the Clark. The line of credit has a final maturity date of June 30, 2020. No funds were borrowed during the fiscal year ended June 30, 2019.

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

| | Restricted as of June 30, 2018 | Revenue Year Ended June 30, 2019 | Releases Year Ended June 30, 2019 | Restricted as of June 30, 2019 |
|---|---|---|---|---|
| **Subject to expenditure for specified purpose:** | | | | |
| Research and academic programs | $ 954,080 | $ 224,890 | $ 375,717 | $ 803,253 |
| Museum programs | 7,002,162 | 2,250,524 | 936,623 | 8,316,063 |
| Capital expenditures | 5,336,558 | 389,331 | 390,190 | 5,335,699 |
| Total subject to expenditure for specified purpose | 13,292,800 | 2,864,745 | 1,702,530 | 14,455,015 |
| **Subject to passage of time:** | 2,206,527 | 1,060,643 | --- | 3,267,170 |
| **Subject to the Clark's spending policy and appropriation:** | | | | |
| Investment in perpetuity (including amounts above original gifts of $87.5 million) which, once appropriated, is expendable to support: | | | | |
| Clark Fund, income expendable | 21,723,701 | | | 21,723,701 |
| Manton Fund, income purpose restricted | 66,018,696 | 5,429,106 | 3,127,137 | 68,320,665 |
| Starr Foundation, income purpose restricted | 7,461,733 | 613,579 | 352,336 | 7,722,976 |
| Other endowment funds, income purpose restricted | 12,181,327 | 1,427,334 | 512,246 | 13,096,415 |
| Total net assets with donor restrictions subject to the Clark' s spending policy and appropriation | 107,385,457 | 7,470,019 | 3,991,719 | 110,863,757 |
| Total net assets with donor restrictions | $ 122,884,784 | $ 11,395,407 | $ 5,694,249 | $ 128,585,942 |

Net assets without donor restrictions for the period ending June 30, 2019 includes $8,469,088 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, 2019, 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, 2019:

| | |
|---|---|
| Endowment net assets, beginning of year | $ 107,385,457 |
| Allocated investment return | |
| Investment income | 1,342,970 |
| Realized and unrealized gains (losses) | 5,847,600 |
| Less investment fees | (151,548) |
| Total allocated investment return | 7,039,022 |
| Contributions | 431,000 |
| Released from restrictions | (3,991,719) |
| Subtotal | 3,478,303 |
| Endowment net assets, end of year | $ 110,863,760 |

**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 $4,140,182 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:

| | NAV as Practical Expedient | Quoted Prices in Active Markets (Level 1) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash and equivalents | $ --- | $ 2,457,605 | $ --- | $ 2,457,605 |
| Unconditional promises to give | | | 3,193,043 | 3,193,043 |
| Charitable Remainder Trust | | | 4,140,182 | 4,140,182 |
| Subtotal | --- | 2,457,605 | 7,333,225 | 9,790,830 |
| Investments: | | | | |
| Invested cash | | 591,025 | | 591,025 |
| Beneficial interest held by others | 320,685,959 | | | 320,685,959 |
| Marketable securities | 459,969 | 42,971,103 | | 43,431,072 |
| Private investments - offshore | 7,453,035 | | | 7,453,035 |
| Commodities funds | 313,952 | | | 313,952 |
| Real estate funds | 4,120,012 | | | 4,120,012 |
| Total Investments | 333,032,927 | 43,562,128 | --- | 376,595,055 |
| Total Financial assets | $ 333,032,927 | $ 46,019,733 | $ 7,333,225 | $ 386,385,885 |

**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.

| NAV Type Investments | Strategy | Fair Value | # of Funds/ Vehicles | Redemption Terms |
|---|---|---|---|---|
| Beneficial interest held by others | Diversified strategies - objective driven | $ 320,685,959 | 1 | 90 days notice, subject to limitations in Note 4 |
| Private investments - offshore | Venture capital and LBOs - Offshore | 7,453,035 | 13 | N/A |
| Commodities funds | Diversified strategies- commodities | 313,952 | 2 | N/A |
| Real estate and infrastructure | Real estate investments | 4,120,012 | 3 | N/A |
| Other marketable securities | Emerging markets | 459,969 | 2 | N/A |
| Total NAV type investments | | $ 333,032,927 | 21 | |

The 21 funds reported on the preceding schedule, excluding the beneficial interest held by others, have no remaining lock-up periods at June 30, 2019.

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, 2019, the Clark's unfunded commitments total $1,281,929. 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. $16.37 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.

**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.

| | |
|---|---|
| Financial assets at June 30, 2019: | |
| Cash and cash equivalents | $ 2,457,605 |
| Interest and dividends receivable | 124,378 |
| Contributions receivable | 3,193,043 |
| Other receivables | 188,643 |
| Investments | 376,595,055 |
| Total financial assets | 382,558,724 |
| Less amounts not available to be used within one year: | |
| Net assets with donor restrictions | 128,585,942 |
| Less net assets with purpose restrictions to be met in less than a year | (693,036) |
| Total amount not available to be used within one year | 127,892,906 |
| 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 | 8,469,088 |
| Add endowment fund appropriation for following year | 16,369,246 |
| Financial assets available to meet general expenditures over the next twelve months | $ 262,565,976 |