

Financial Statements and Report of
Independent Certified Public Accountants

AUTRY MUSEUM OF THE AMERICAN WEST

For the years ended December 31, 2018 and 2017

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Report of Independent Certified Public Accountants

Board of Trustees

Autry Museum of the American West

We have audited the accompanying financial statements of the Autry Museum of the American West (the "Autry"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 the Autry Museum of the American West as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Los Angeles, California

May 24, 2019

Autry Museum of the American West
Statements of Financial Position
As of December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 757,200 | \$ 2,172,989 |
| Accounts receivable | 1,277,386 | 593,246 |
| Prepaid expenses | 244,094 | 79,771 |
| Inventory, net | 345,379 | 316,492 |
| Contributions receivable, net | 155,123,155 | 154,364,750 |
| Investments | 9,141,732 | 10,317,642 |
| Property and equipment, net | 61,665,595 | 62,011,162 |
| Land lease | 6,127,632 | 6,468,060 |
| Other assets | <u>2,756,330</u> | <u>2,670,982</u> |
| Total assets | <u>\$ 237,438,503</u> | <u>\$ 238,995,094</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 788,592 | \$ 655,269 |
| Accrued liabilities | 1,095,951 | 1,094,801 |
| Notes payable | <u>29,985,152</u> | <u>29,145,152</u> |
| Total liabilities | <u>31,869,695</u> | <u>30,895,222</u> |
| Net assets | | |
| Without donor restrictions | 34,771,196 | 36,641,853 |
| With donor restrictions | <u>170,797,612</u> | <u>171,458,019</u> |
| Total net assets | <u>205,568,808</u> | <u>208,099,872</u> |
| Total liabilities and net assets | <u>\$ 237,438,503</u> | <u>\$ 238,995,094</u> |

The accompanying notes are an integral part of these financial statements.

Autry Museum of the American West
Statements of Activities
For the years ended December 31, 2018 and 2017

| | 2018 | | | 2017 | | |
|---|-------------------------------|----------------------------|-------------------|-------------------------------|----------------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues | | | | | | |
| Fundraising income | | | | | | |
| Gifts and grants | \$ 839,306 | \$ 12,141,707 | \$ 12,981,013 | \$ 1,736,462 | \$ 19,782,577 | \$ 21,519,039 |
| Special events, net of expenses | 764,879 | - | 764,879 | 433,494 | - | 433,494 |
| Memberships | 346,286 | - | 346,286 | 394,218 | - | 394,218 |
| Total fundraising income | <u>1,950,471</u> | <u>12,141,707</u> | <u>14,092,178</u> | <u>2,564,174</u> | <u>19,782,577</u> | <u>22,346,751</u> |
| Earned income | | | | | | |
| Admissions | 661,670 | - | 661,670 | 801,929 | - | 801,929 |
| Program and other income | 207,806 | - | 207,806 | 434,715 | - | 434,715 |
| Auxiliary services, net of cost of goods sold | 288,076 | - | 288,076 | 334,505 | - | 334,505 |
| Total earned income | <u>1,157,552</u> | <u>-</u> | <u>1,157,552</u> | <u>1,571,149</u> | <u>-</u> | <u>1,571,149</u> |
| Endowment distribution | 676,899 | - | 676,899 | 330,000 | - | 330,000 |
| Total revenues | <u>3,784,922</u> | <u>12,141,707</u> | <u>15,926,629</u> | <u>4,465,323</u> | <u>19,782,577</u> | <u>24,247,900</u> |
| Net assets released from restrictions or redesignated | 12,411,939 | (12,411,939) | - | 11,807,518 | (11,807,518) | - |
| Total revenues and releases | <u>16,196,861</u> | <u>(270,232)</u> | <u>15,926,629</u> | <u>16,272,841</u> | <u>7,975,059</u> | <u>24,247,900</u> |
| Expenses | | | | | | |
| Program services | | | | | | |
| Exhibitions and research | 9,810,454 | - | 9,810,454 | 8,923,770 | - | 8,923,770 |
| Public programs and education | 1,990,189 | - | 1,990,189 | 1,903,850 | - | 1,903,850 |
| Total program services | <u>11,800,643</u> | <u>-</u> | <u>11,800,643</u> | <u>10,827,620</u> | <u>-</u> | <u>10,827,620</u> |
| Support services | | | | | | |
| Administration | 1,683,196 | - | 1,683,196 | 2,162,808 | - | 2,162,808 |
| Marketing | 1,446,896 | - | 1,446,896 | 1,413,647 | - | 1,413,647 |
| Fundraising | 1,847,898 | - | 1,847,898 | 1,862,616 | - | 1,862,616 |
| Auxiliary services | 502,239 | - | 502,239 | 499,119 | - | 499,119 |
| Total support services | <u>5,480,229</u> | <u>-</u> | <u>5,480,229</u> | <u>5,938,190</u> | <u>-</u> | <u>5,938,190</u> |
| Total expenses | <u>17,280,872</u> | <u>-</u> | <u>17,280,872</u> | <u>16,765,810</u> | <u>-</u> | <u>16,765,810</u> |
| Change in net assets from operations | (1,084,011) | (270,232) | (1,354,243) | (492,969) | 7,975,059 | 7,482,090 |

The accompanying notes are an integral part of these financial statements.

Autry Museum of the American West
Statements of Activities - Continued
For the years ended December 31, 2018 and 2017

| | 2018 | | | 2017 | | |
|------------------------------------|-------------------------------|----------------------------|----------------|-------------------------------|----------------------------|----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Other changes in net assets | | | | | | |
| Losses on sales of assets, net | \$ (911) | \$ - | \$ (911) | \$ (708) | \$ - | \$ (708) |
| Endowment return | (108,836) | (390,175) | (499,011) | 322,900 | 1,114,697 | 1,437,597 |
| Endowment distribution | (676,899) | - | (676,899) | (330,000) | - | (330,000) |
| Other changes in net assets | (786,646) | (390,175) | (1,176,821) | (7,808) | 1,114,697 | 1,106,889 |
| Total change in net assets | (1,870,657) | (660,407) | (2,531,064) | (500,777) | 9,089,756 | 8,588,979 |
| Net assets, beginning of year | 36,641,853 | 171,458,019 | 208,099,872 | 37,142,630 | 162,368,263 | 199,510,893 |
| Net assets, end of year | \$ 34,771,196 | \$ 170,797,612 | \$ 205,568,808 | \$ 36,641,853 | \$ 171,458,019 | \$ 208,099,872 |

The accompanying notes are an integral part of these financial statements.

Autry Museum of the American West
Statements of Cash Flows
For the years ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|--------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (2,531,064) | \$ 8,588,979 |
| Adjustments to reconcile change in net assets to cash provided by operating activities | | |
| Change in net present value discount on contributions receivable | (6,548,812) | (12,758,356) |
| Contributions restricted for capital acquisition and construction | 3,764,887 | 5,655,258 |
| Net realized and unrealized (gains)/losses on investments | 628,303 | (1,329,526) |
| Depreciation of property and equipment | 1,574,350 | 1,556,576 |
| Amortization of land lease | 340,428 | 340,428 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (684,140) | 187,751 |
| Prepaid expenses | (164,323) | 96,878 |
| Inventory | (28,887) | (19,320) |
| Contributions receivable | 5,790,407 | 5,194,101 |
| Other assets | (85,348) | (612,645) |
| Accounts payable | 133,323 | (1,105,285) |
| Accrued liabilities | 1,150 | 76,647 |
| Net cash provided by operating activities | <u>2,190,274</u> | <u>5,871,486</u> |
| Cash flows from investing activities | | |
| Proceeds from sales of investments | 2,921,910 | 3,101,786 |
| Purchases of investments | (2,374,303) | (2,867,893) |
| Purchases of property and equipment | (1,228,783) | (1,754,121) |
| Net cash used in investing activities | <u>(681,176)</u> | <u>(1,520,228)</u> |
| Cash flows from financing activities | | |
| Contributions restricted for capital acquisition and construction | (3,764,887) | (5,655,258) |
| Borrowings under notes payable | 1,840,000 | 2,345,152 |
| Repayments of notes payable | (1,000,000) | (700,000) |
| Net cash used in financing activities | <u>(2,924,887)</u> | <u>(4,010,106)</u> |
| Net change in cash and cash equivalents | (1,415,789) | 341,152 |
| Cash and cash equivalents, beginning of year | <u>2,172,989</u> | <u>1,831,837</u> |
| Cash and cash equivalents, end of year | <u>\$ 757,200</u> | <u>\$ 2,172,989</u> |
| Supplemental disclosures | | |
| Accounts payable for construction in progress | <u>\$ 39,874</u> | <u>\$ 25,832</u> |
| Interest paid | <u>\$ 842,100</u> | <u>\$ 562,037</u> |

The accompanying notes are an integral part of these financial statements.

Autry Museum of the American West
Statement of Functional Expenses
For the year ended December 31, 2018

| | Program Services | | | Support Services | | | | | Total Expenses |
|--|--------------------------|-------------------------------|------------------------------------|---------------------|---------------------|---------------------|--------------------|------------------------------------|----------------------|
| | Exhibitions and Research | Public Programs and Education | Subtotal Program Services Expenses | Administration | Marketing | Fundraising | Auxiliary Services | Subtotal Support Services Expenses | |
| Staff Compensation | | | | | | | | | |
| Salaries and wages | \$ 3,650,125 | \$ 886,917 | \$ 4,537,042 | \$ 1,022,765 | \$ 717,135 | \$ 1,151,010 | \$ 140,409 | \$ 3,031,319 | \$ 7,568,361 |
| Fringe benefits | 690,508 | 132,313 | 822,821 | 115,391 | 131,860 | 179,071 | 28,925 | 455,247 | 1,278,068 |
| | <u>4,340,633</u> | <u>1,019,230</u> | <u>5,359,863</u> | <u>1,138,156</u> | <u>848,995</u> | <u>1,330,081</u> | <u>169,334</u> | <u>3,486,566</u> | <u>8,846,429</u> |
| Physical Infrastructure | | | | | | | | | |
| Facilities maintenance and repair | 1,035,050 | 41,688 | 1,076,738 | 14,469 | 5,223 | 1,681 | 51,751 | 73,124 | 1,149,862 |
| Utilities | 989,084 | 29,583 | 1,018,667 | 13,642 | 3,856 | 1,585 | 118,039 | 137,122 | 1,155,789 |
| Information technology | 242,550 | 18,256 | 260,806 | 88,149 | 3,132 | 86,601 | 28,558 | 206,440 | 467,246 |
| Amortization of land lease | 292,676 | 17,825 | 310,501 | 8,220 | 1,780 | 955 | 18,972 | 29,927 | 340,428 |
| Depreciation of property and equipment | 1,366,648 | 66,325 | 1,432,973 | 60,608 | 6,623 | 3,554 | 70,592 | 141,377 | 1,574,350 |
| | <u>3,926,008</u> | <u>173,677</u> | <u>4,099,685</u> | <u>185,088</u> | <u>20,614</u> | <u>94,376</u> | <u>287,912</u> | <u>587,990</u> | <u>4,687,675</u> |
| Other Goods and Services | | | | | | | | | |
| Collection acquisitions | 223,572 | 7,500 | 231,072 | - | - | 7,583 | - | 7,583 | 238,655 |
| Exhibition subcontractors | 122,470 | - | 122,470 | - | - | - | - | - | 122,470 |
| Graphic design and photography | 10,504 | 5,752 | 16,256 | 1,177 | 23,268 | 5,494 | - | 29,939 | 46,195 |
| Printing and signage | 109,976 | 33,830 | 143,806 | 2,991 | 99,382 | 15,281 | 64 | 117,718 | 261,524 |
| Advertising and public relations | 6,426 | 1,044 | 7,470 | 55,667 | 309,032 | 1,285 | - | 365,984 | 373,454 |
| Shipping and postage | 67,035 | 1,685 | 68,720 | 1,795 | 27,301 | 24,129 | 103 | 53,328 | 122,048 |
| Supplies | 384,829 | 65,554 | 450,383 | 8,160 | 11,303 | 2,409 | 9,262 | 31,134 | 481,517 |
| Rental of storage space and equipment | 63,837 | 184,191 | 248,028 | - | 514 | - | - | 514 | 248,542 |
| Travel and entertainment | 62,760 | 160,402 | 223,162 | 60,368 | 62,719 | 125,036 | 541 | 248,664 | 471,826 |
| Dues and memberships | 2,314 | 2,548 | 4,862 | 10,900 | 17,689 | 7,817 | 3,849 | 40,255 | 45,117 |
| Consultants | 36,443 | 107,801 | 144,244 | 26,095 | 2,500 | 209,407 | - | 238,002 | 382,246 |
| Other professional services | 72,773 | 209,621 | 282,394 | 6,016 | 4,569 | 3,690 | 1,318 | 15,593 | 297,987 |
| Audit and legal | - | - | - | 161,881 | - | - | - | 161,881 | 161,881 |
| Insurance | 357,885 | 13,918 | 371,803 | 6,418 | 1,390 | 6,705 | 14,813 | 29,326 | 401,129 |
| Bank fees | 144 | 2,045 | 2,189 | 12,342 | 17,481 | 14,530 | 13,562 | 57,915 | 60,104 |
| Interest | 22,845 | 1,391 | 24,236 | 642 | 139 | 75 | 1,481 | 2,337 | 26,573 |
| Bad debt | - | - | - | 5,500 | - | - | - | 5,500 | 5,500 |
| | <u>1,543,813</u> | <u>797,282</u> | <u>2,341,095</u> | <u>359,952</u> | <u>577,287</u> | <u>423,441</u> | <u>44,993</u> | <u>1,405,673</u> | <u>3,746,768</u> |
| | <u>\$ 9,810,454</u> | <u>\$ 1,990,189</u> | <u>\$ 11,800,643</u> | <u>\$ 1,683,196</u> | <u>\$ 1,446,896</u> | <u>\$ 1,847,898</u> | <u>\$ 502,239</u> | <u>\$ 5,480,229</u> | <u>\$ 17,280,872</u> |

The accompanying notes are an integral part of these financial statements.

Autry Museum of the American West
Statement of Functional Expenses
For the year ended December 31, 2017

| | Program Services | | | Support Services | | | | | Total Expenses |
|--|--------------------------|-------------------------------|------------------------------------|---------------------|---------------------|---------------------|--------------------|------------------------------------|----------------------|
| | Exhibitions and Research | Public Programs and Education | Subtotal Program Services Expenses | Administration | Marketing | Fundraising | Auxiliary Services | Subtotal Support Services Expenses | |
| Staff Compensation | | | | | | | | | |
| Salaries and wages | \$ 3,155,352 | \$ 820,934 | \$ 3,976,286 | \$ 1,339,991 | \$ 678,695 | \$ 1,083,165 | \$ 139,069 | \$ 3,240,920 | \$ 7,217,206 |
| Fringe benefits | 581,781 | 127,870 | 709,651 | 155,957 | 138,188 | 159,224 | 32,411 | 485,780 | 1,195,431 |
| | <u>3,737,133</u> | <u>948,804</u> | <u>4,685,937</u> | <u>1,495,948</u> | <u>816,883</u> | <u>1,242,389</u> | <u>171,480</u> | <u>3,726,700</u> | <u>8,412,637</u> |
| Physical Infrastructure | | | | | | | | | |
| Facilities maintenance and repair | 843,984 | 40,017 | 884,001 | 12,887 | 4,847 | 1,497 | 50,255 | 69,486 | 953,487 |
| Utilities | 844,535 | 28,099 | 872,634 | 12,374 | 3,527 | 1,438 | 109,933 | 127,272 | 999,906 |
| Information technology | 422,233 | 22,796 | 445,029 | 85,441 | 7,738 | 132,997 | 32,308 | 258,484 | 703,513 |
| Amortization of land lease | 292,676 | 17,825 | 310,501 | 8,220 | 1,780 | 955 | 18,972 | 29,927 | 340,428 |
| Depreciation of property and equipment | 1,353,551 | 64,832 | 1,418,383 | 59,243 | 6,474 | 3,474 | 69,002 | 138,193 | 1,556,576 |
| | <u>3,756,979</u> | <u>173,569</u> | <u>3,930,548</u> | <u>178,165</u> | <u>24,366</u> | <u>140,361</u> | <u>280,470</u> | <u>623,362</u> | <u>4,553,910</u> |
| Other Goods and Services | | | | | | | | | |
| Collection acquisitions | 71,950 | 10,900 | 82,850 | - | - | 4,500 | - | 4,500 | 87,350 |
| Exhibition subcontractors | 133,217 | - | 133,217 | - | 363 | - | - | 363 | 133,580 |
| Graphic design and photography | 34,010 | 5,320 | 39,330 | 1,434 | 11,837 | 17,919 | 70 | 31,260 | 70,590 |
| Printing and signage | 187,351 | 17,853 | 205,204 | 3,416 | 95,312 | 10,770 | 11 | 109,509 | 314,713 |
| Advertising and public relations | - | 25 | 25 | 46,528 | 322,353 | - | - | 368,881 | 368,906 |
| Shipping and postage | 57,724 | 1,326 | 59,050 | 3,658 | 22,404 | 2,110 | 310 | 28,482 | 87,532 |
| Supplies | 331,907 | 63,225 | 395,132 | 9,548 | 12,896 | 3,530 | 10,547 | 36,521 | 431,653 |
| Rental of storage space and equipment | 67,066 | 190,489 | 257,555 | 7,693 | - | - | - | 7,693 | 265,248 |
| Travel and entertainment | 34,801 | 157,077 | 191,878 | 70,594 | 68,702 | 80,315 | 712 | 220,323 | 412,201 |
| Dues and memberships | 1,879 | 2,570 | 4,449 | 14,043 | 12,620 | 3,853 | 7,219 | 37,735 | 42,184 |
| Consultants | 80,742 | 91,343 | 172,085 | 43,575 | - | 49,142 | - | 92,717 | 264,802 |
| Other professional services | 99,172 | 229,476 | 328,648 | 17,646 | 564 | 260,979 | 455 | 279,644 | 608,292 |
| Audit and legal | - | - | - | 196,001 | - | 7,234 | - | 203,235 | 203,235 |
| Insurance | 320,831 | 11,324 | 332,155 | 5,222 | 1,131 | 6,566 | 12,053 | 24,972 | 357,127 |
| Bank fees | - | - | - | 12,067 | 24,161 | 32,919 | 15,208 | 84,355 | 84,355 |
| Interest | 9,008 | 549 | 9,557 | 253 | 55 | 29 | 584 | 921 | 10,478 |
| Bad debt | - | - | - | 57,017 | - | - | - | 57,017 | 57,017 |
| | <u>1,429,658</u> | <u>781,477</u> | <u>2,211,135</u> | <u>488,695</u> | <u>572,398</u> | <u>479,866</u> | <u>47,169</u> | <u>1,588,128</u> | <u>3,799,263</u> |
| | <u>\$ 8,923,770</u> | <u>\$ 1,903,850</u> | <u>\$ 10,827,620</u> | <u>\$ 2,162,808</u> | <u>\$ 1,413,647</u> | <u>\$ 1,862,616</u> | <u>\$ 499,119</u> | <u>\$ 5,938,190</u> | <u>\$ 16,765,810</u> |

The accompanying notes are an integral part of these financial statements.

Autry Museum of the American West

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

1. ORGANIZATION

The Autry Museum of the American West (“the Autry”) is a California not-for-profit public benefit corporation. The Autry arose in its present form from the merger in 2003 of the then Autry Museum of Western Heritage (founded in 1984 and opened in 1988) with the Southwest Museum of the American Indian (founded in 1907) and with the Women of the West Museum (founded in 1991). The Autry is dedicated to exploring and sharing the stories, experiences and perceptions of the diverse peoples of the American West, connecting the past to the present to inspire a shared future. The museum presents a wide range of exhibitions and public programs, including lectures, films, theater, music and festivals, and conducts scholarship, research and educational outreach. The Autry’s collections of more than 600,000 works of art and artifacts include the Southwest Museum of the American Indian Collection, one of the largest and most significant collections of Native American materials in the United States.

The Autry is accredited by the American Alliance of Museums (“AAM”), the museum field’s primary vehicle for quality assurance, self-regulation and public accountability. AAM accreditation signifies that a museum meets AAM standards and best practices as an educational entity and as a good steward of the collections that it holds in trust for the public.

Philanthropy is the primary source of revenue for the Autry. Fundraising income is realized from gifts, grants, special events and memberships, and is received from individuals, foundations, corporations and government agencies. Earned income is a secondary revenue source for the Autry, and is realized from admissions, programs and auxiliary services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) using the accrual basis of accounting.

Basis of Presentation

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standard Update (“ASU”) No. 2016-14 (Topic 958), *Presentation of Financial Statements for Not-for-Profit Entities*, the Autry classifies its financial position and activities into two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Revenues, expenses, gains, losses, net assets and the changes therein are classified based on the existence or absence of donor-imposed restrictions as follows:

- ***Net assets without donor restrictions*** – Net assets without donor restrictions include resources not subject to donor-imposed stipulations, which are generally available for support of the Autry’s operations, as well as funds designated by the Board of Trustees to function as endowment.
- ***Net assets with donor restrictions*** – Net assets with donor restrictions include resources resulting from contributions of assets whose use by the Autry is subject to donor-imposed restrictions that (a) expire by the passage of time, or (b) will be fulfilled by future actions of the Autry pursuant to those restrictions, or (c) are restricted by donors to be maintained by the Autry in perpetuity. The Autry is generally permitted to expend all or part of the income and gains derived from donated assets maintained in perpetuity, restricted only by the donors’ wishes.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and highly liquid investments, such as certificates of deposit, with original maturities of three months or less.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Recoveries of receivables previously written off are recorded as revenue when received.

Inventory

Inventory consists of merchandise purchased for resale in the Autry's retail store. The merchandise is valued at the lower of cost or net realizable value. Cost is determined using the average cost method. The Autry provides an allowance for inventory obsolescence and shrinkage based on amounts ultimately expected to be realized upon sale. At December 31, 2018 and 2017, net inventory of \$345,379 and \$316,492 consisted of purchases of \$435,990 and \$403,148 less allowances of \$90,611 and \$86,656, respectively.

Contributions Receivable

Contributions receivable consist of unconditional promises to give, i.e., pledges, to the Autry in the future and are recorded at their estimated fair value. Contributions to be received beyond one year are discounted at appropriate rates commensurate with the risks involved. Discount factors are established in the fiscal year in which the respective contribution originates and are not subsequently adjusted, except for any changes in mortality tables which were used in discounting the contributions at the time the pledge was made. Any subsequent changes in mortality tables may increase or decrease contributions receivable and contributions revenue due to the effective change in discount rate used. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Management estimates an allowance for uncollectible contributions receivable based on management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Contributions are written off if they become uncollectible.

Investments

Investments consist of money market, fixed income fund, and equity fund investments restricted by donors or designated by the Board of Trustees (the "Board") for long-term investment. Under the provisions of FASB Accounting Standards Codification ("ASC") 958-320, *Investments – Debt and Equity Securities*, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statements of financial position. Net appreciation or depreciation in the fair value of investments, which consists of both the realized gains or losses and the unrealized appreciation or depreciation of those investments, is reported in the statements of activities.

Investment return on assets with donor restrictions is reported as an increase in net assets without donor restrictions if the asset restriction expires in the reporting period in which the income is recognized. All other investment return on assets with donor restrictions is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

Interest income and dividend income are accrued as earned. Investment return in the financial statements is net of investment advisory and management fees. Security transactions are recorded on a trade date basis.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property and Equipment

Property and equipment are recorded at cost. Cost is the purchase price at date of procurement, if purchased, or fair value at date of gift, if donated. Interest on borrowings used to fund the construction of major facilities is capitalized as part of the asset to which it relates until the facilities become fully operational. Additions and improvements that significantly extend the lives of assets are capitalized. Expenditures for repairs and maintenance which do not improve or extend the lives of the respective assets are charged to expense as incurred.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|-----------------------------------|-------------------------------------|
| Buildings | 40 years |
| Leasehold improvements | lesser of useful life or lease term |
| Collection storage fixtures | 15 years |
| Furniture, fixtures and equipment | 5 years |
| Automotive equipment | 5 years |
| Computer equipment and software | 3 years |

The Autry evaluates the impairment of long-lived assets in accordance with FASB ASC 360, *Property, Plant and Equipment* whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount for the assets to the undiscounted future net cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the fair value of the asset. There was no impairment of long-lived assets noted in 2018 or 2017.

Collections

The Autry's collections consist of paintings, sculptures, works on paper, photographs, historic artifacts, archaeological and ethnographic materials, sound recordings, films, and library and archival material related to the history of the American West and to indigenous cultures of the United States. The collections are maintained for exhibitions, research, public programs and education in alignment with the Autry's mission. Items are catalogued, conserved and cared for following AAM standards, and collection audits are performed regularly.

The collections, which were acquired through purchases and contributions since the Autry's inception, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded in the year in which the items were acquired as decreases in net assets without donor restrictions or net assets with donor restrictions, depending on the source of the assets used to purchase the items and whether those assets were restricted by donors. Contributed collection items are not reflected in the financial statements. The Autry's collections policy requires that proceeds from deaccessions or insurance recoveries be used for acquisitions for the collections.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Asset Retirement Obligations

Asset retirement obligations are recognized in the period in which the Autry incurs a legal obligation associated with the retirement of an asset. The obligation is measured initially at fair value discounted to its present value using a credit-adjusted risk-free interest rate, and the resulting costs are capitalized into the carrying value of the related assets. The liability is accreted through charges to earnings. Costs related to asset retirement obligations are depreciated over the remaining useful life of the underlying asset.

The Autry has a known conditional asset retirement obligation for asbestos remediation activities to be performed in the future, which is not reasonably estimable due to insufficient information about the timing and method of settlement of the obligation. Accordingly, this obligation has not been recorded in the financial statements because the fair value cannot be reasonably estimated. A liability for this obligation will be recorded in the period when sufficient information regarding timing and method of settlement becomes available to make a reasonable estimate of the liability's fair value.

Gifts and Grants

Contributions, including gifts of cash or marketable securities, grants, in-kind gifts and unconditional promises to give, i.e., pledges, are recorded at fair value and are recognized as revenue in the period in which they are received. Contributions received are recorded as revenue without donor restrictions or revenue with donor restrictions, depending on the existence and/or nature of any donor restrictions upon the earlier of the receipt of a donor's unconditional written pledge to contribute or upon receipt of the contribution. Contributions, including pledges, are recorded as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, net assets with donor restrictions are reclassified to net assets without donor restrictions, and reported in the statements of activities as net assets released from restrictions. Contributions with donor restrictions are reported as revenue without donor restrictions when the restriction is met in the same period as the contribution is received.

Contributions restricted by a donor for the acquisition or construction of capital assets are recorded as revenue with donor restrictions and are reclassified to net assets without donor restrictions when the asset is acquired and placed in service.

Conditional promises to give are recorded as contributions in the period the condition or barrier is met. Conditional promises to give are not recognized as revenue until they become unconditional, i.e., when the conditions on which they depend have been met. If funds are received from such gifts, they are recorded as refundable advances until the contingency is satisfied. When the contingency is satisfied, the gift is recognized as either revenue without donor restrictions or revenue with donor restrictions, depending on the intent of the donor.

Wills and Bequests

The Autry is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. Bequests are recorded as revenue at the time the Autry has an established right to the bequest, the proceeds are measurable, and it is determined that the donor has sufficient assets to fulfill the bequest.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Contributed Services

In accordance with FASB ASC 958-605, *Revenue Recognition*, contributed services are recognized when received if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Contributed services from donors which qualify for recognition are included in revenue and are offset by equal amounts included in expense in the statements of activities.

In addition, volunteers donate significant amounts of time related to the Autry's public programming, educational outreach and fundraising activities. The value of donated volunteer services is not recognized in the financial statements, as such services do not meet the criteria described above.

Special Events

Revenues from special fundraising events, which include the annual Masters of the West art exhibition and sale as well as the annual fall celebration, are recorded net of the costs of direct benefits provided to donors, sponsors, artists and other attendees. For the years ended December 31, 2018 and 2017, net revenues from special events of \$764,879 and \$433,494 consisted of gross revenues of \$1,800,249 and \$1,157,621 less costs of direct benefits of \$1,035,370 and \$724,127, respectively.

Revenue Recognition

Admissions, program and other revenues are recognized at the time the services are provided and the revenues are earned. Revenues received for future fiscal years are reported as deferred revenues until earned.

Expense Allocations

Expenses associated with a specific program service or support service are charged directly to that service. Expenses applicable to the Autry's buildings, grounds and building systems are allocated among all program services and support services based on the relative square footage occupied by each service. Such allocable expenses include facilities maintenance, utilities, information technology, security, interest, insurance, depreciation of property and equipment, and amortization of the land lease (Note 8).

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, i.e., the exit price.

The standard also prioritizes, with the measurement of fair value, the use of market-based information over entity-specific information, and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities and the lowest ranking to fair values determined using methodologies and models with unobservable inputs, as follows:

- *Level 1* – Quoted prices in active markets that the Autry can access for identical assets and liabilities for which significant observable inputs exist. Market price data is generally obtained from exchange or dealer markets. The Autry does not adjust the quoted price for such assets and liabilities. Investments included in Level 1 may include certain equity securities and registered mutual funds at the measurement date.
- *Level 2* – Pricing inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of assets or liabilities. Inputs are obtained from various sources including market participants, dealers and brokers. Investments included in Level 2 may include certain money market, fixed income, and equity funds for which observable inputs exist and which trade in markets not considered to be active.
- *Level 3* – Pricing inputs that are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant judgment or estimation by management. The types of instruments generally included in this category are limited partnerships with designated investments, lock up periods or gates extending more than three months beyond the balance sheet date.

The Autry's financial instruments include cash and cash equivalents for which the carrying amounts approximate fair value due to the short maturity of these items.

Concentration of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject the Autry to concentrations of credit risk consist primarily of cash and cash equivalents, contributions receivable and investments.

The Autry maintains its cash and cash equivalents with a major financial institution. All accounts at an insured depository institution, including non-interest-bearing transaction accounts, are insured by the Federal Deposit Insurance Corporation ("the FDIC") up to \$250,000 per depositor, per insured financial institution, for each deposit insurance ownership category. At December 31, 2018 and 2017, the Autry held \$494,750 and \$1,910,539, respectively, in cash balances in excess of the level of FDIC insurance.

Contributions receivable are uncollateralized and the Autry is at risk to the extent such amounts become uncollectible (Note 16).

Investment securities are exposed to various risks, including interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities may occur in the near term, and the changes could materially affect the amounts reported in the statements of financial position. To address the risk of investments, the Autry maintains a formal investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines. The Autry also utilizes the expertise and processes of an external investment manager.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes

The Autry follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Autry is exempt from federal income tax under IRC Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Autry is also exempt from California franchise taxes under Revenue and Taxation Code Section 23701d on its income other than unrelated business income. The Autry has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The Autry has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation without affecting previously reported classes of net assets in total.

Redesignations of Net Assets

Certain amounts received from donors in prior years may be transferred between net asset categories due to subsequent changes in donor designations.

Recent Accounting Pronouncements

In recent years, the FASB has issued two ASUs relevant to not-for-profit organizations which become effective for the Autry in 2019 and 2020, respectively:

- In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts and Customers (Topic 606)*. This standard will eliminate the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle-based approach for determining revenue recognition. The provisions of this ASU will include requiring accounting for the liability for each benefit provided to a donor as part of a contribution received for a membership or for an event sponsorship. The provisions in this ASU are effective for fiscal years beginning after December 15, 2018, i.e., in 2019 for the Autry. The Autry is currently evaluating the impact of adopting this ASU.
- In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The provisions of this ASU require accounting for operating leases in the statements of position. The provisions in this ASU are effective for fiscal years beginning after December 15, 2019, i.e., in 2020 for the Autry. The Autry is currently evaluating the impact of adopting this ASU.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

3. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2018 and 2017 included the following:

| | <u>2018</u> | <u>2017</u> |
|---------------------|---------------------|-------------------|
| Grants receivable | \$ 1,272,860 | \$ 589,900 |
| Other receivables | <u>4,526</u> | <u>3,346</u> |
| Accounts receivable | <u>\$ 1,277,386</u> | <u>\$ 593,246</u> |

Management has assessed the collectability of accounts receivable, and determined that no allowance for doubtful accounts is required at December 31, 2018 and 2017.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2018 and 2017 included the following:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|-----------------------|-----------------------|
| Amounts due in | | |
| Less than one year | \$ 9,029,518 | \$ 9,470,212 |
| One to five years | 30,898,525 | 31,702,560 |
| More than five years | <u>183,555,925</u> | <u>188,101,603</u> |
| Contributions receivable, gross | <u>223,483,968</u> | <u>229,274,375</u> |
| Less present value discount | <u>(68,360,813)</u> | <u>(74,909,625)</u> |
| Contributions receivable, net | <u>\$ 155,123,155</u> | <u>\$ 154,364,750</u> |

Contributions to be received beyond one year are discounted at appropriate rates commensurate with the risks involved. Discount factors are established in the fiscal year in which the respective contribution originates and are not subsequently adjusted. The rates used to discount contributions to present value ranged from 1.2% to 5.59% at both December 31, 2018 and 2017, respectively.

Management has assessed the collectability of contributions receivable, and determined that no allowance for doubtful accounts is required at December 31, 2018 and 2017.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

5. INVESTMENTS

Investments at December 31, 2018 and 2017 consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|--------------------------|---------------------|----------------------|
| Money market fund | \$ 152,980 | \$ 160,935 |
| Fixed income mutual fund | 2,903,116 | 3,002,066 |
| Equity mutual funds | <u>6,085,636</u> | <u>7,154,641</u> |
| Total | <u>\$ 9,141,732</u> | <u>\$ 10,317,642</u> |

At December 31, 2018 and 2017, the Autry's investments were classified within the valuation hierarchy as follows:

| | <u>2018</u> | | | |
|-------------------------------------|---------------------|-------------------|----------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Money market fund | \$ - | \$ 152,980 | \$ - | \$ 152,980 |
| Fixed income mutual fund | 2,903,116 | - | - | 2,903,116 |
| Equity mutual funds - international | 1,392,894 | - | - | 1,392,894 |
| Equity mutual funds - domestic | <u>4,692,742</u> | <u>-</u> | <u>-</u> | <u>4,692,742</u> |
| Total | <u>\$ 8,988,752</u> | <u>\$ 152,980</u> | <u>\$ -</u> | <u>\$ 9,141,732</u> |

| | <u>2017</u> | | | |
|-------------------------------------|----------------------|-------------------|----------------|----------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Money market fund | \$ - | \$ 160,935 | \$ - | \$ 160,935 |
| Fixed income mutual fund | 3,002,066 | - | - | 3,002,066 |
| Equity mutual funds - international | 1,609,579 | - | - | 1,609,579 |
| Equity mutual funds - domestic | <u>5,545,062</u> | <u>-</u> | <u>-</u> | <u>5,545,062</u> |
| Total | <u>\$ 10,156,707</u> | <u>\$ 160,935</u> | <u>\$ -</u> | <u>\$ 10,317,642</u> |

Investments in fixed income mutual funds and equity mutual funds are classified as Level 1, as they are traded in an active market for which closing prices are readily available. The investment in the money market fund is classified as Level 2, as this fund is priced based on matrix/model pricing. The investment in the money market fund has no redemption frequency limitation and allows for same-day notice for redemption.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

6. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The museum's operating cash flows fluctuate during the year, driven primarily by the timing of gift receipts, including payments on pledges, and by changes in annual programmatic and fundraising initiatives. The museum maintains a \$4,000,000 revolving operating line of credit (Note 11) at its bank to draw upon to cover short-term operating cash needs during the year. At December 31, 2018 and 2017, \$2,160,000 and \$4,000,000, respectively, were available to draw from this line. It is the museum's intent to repay annual draws on the line to the fullest extent possible by the end of each year.

At December 31, 2018 and 2017, the museum had the following liquid financial assets available to cover operating cash needs for the subsequent year. Available financial assets exclude those due beyond one year or those invested as endowments with donor restrictions.

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 757,200 | \$ 2,172,989 |
| Accounts receivable | 1,277,386 | 593,246 |
| Contributions receivable, gross | 223,483,968 | 229,274,375 |
| Investments | <u>9,141,732</u> | <u>10,317,642</u> |
| Total financial assets | <u>\$ 234,660,286</u> | <u>\$ 242,358,252</u> |
| Due beyond one year: | | |
| Accounts receivable | \$ (211,875) | \$ (312,500) |
| Contributions receivable, gross | (214,454,450) | (219,804,163) |
| Endowments with donor restrictions: | | |
| Accumulated investment return | (1,845,329) | (2,764,762) |
| Original gift principal | <u>(5,302,553)</u> | <u>(5,302,553)</u> |
| Liquid financial assets available within one year | <u>\$ 12,846,079</u> | <u>\$ 14,174,274</u> |

The liquid financial assets available within one year include Board-designated funds functioning as endowments, as the Board could remove the designation of these funds and make them available as operating cash. Such funds total \$1,993,850 and \$2,250,327 at December 31, 2018 and 2017, respectively (Note 13).

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

7. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|----------------------|----------------------|
| Land | \$ 5,305,189 | \$ 5,305,189 |
| Buildings | 39,723,168 | 13,089,511 |
| Leasehold improvements | 40,127,322 | 40,097,122 |
| Collection storage fixtures | 5,917,703 | - |
| Furniture, fixtures and equipment | 5,637,356 | 5,257,139 |
| Construction in progress | 519,791 | 32,252,784 |
| Automotive equipment | <u>87,615</u> | <u>87,615</u> |
| | 97,318,144 | 96,089,360 |
| Less accumulated depreciation | <u>(35,652,549)</u> | <u>(34,078,198)</u> |
| Property and equipment, net | <u>\$ 61,665,595</u> | <u>\$ 62,011,162</u> |

Depreciation expense charged to operations was \$1,574,350 and \$1,556,576 for the years ended December 31, 2018 and 2017, respectively.

8. LAND LEASE

In January 1987, the Autry entered into a 50-year ground lease with the City of Los Angeles (the “City”) for the use of certain land in Griffith Park for the specific purpose of operating a museum. In exchange for offering public programs in the Autry’s facilities, the Autry pays the City \$1 per year. The lease expires in January 2037 unless extended by mutual agreement between the City and the Autry. The Autry, pursuant to certain conditions, has the right to terminate the lease upon one year’s written notice to the City. The Autry recognized the benefit of this lease agreement as a land lease asset and as revenue with donor restrictions. The net present value of the future contribution benefit was computed at a discount rate based upon prevailing rates at the time the lease agreement commenced. The Autry has established the fair market value of the in-kind rent under the agreement at \$340,428 per year (Note 12), and recognizes an offsetting in-kind donation released from restriction of the same amount in the statements of activities. The value of the land lease asset at December 31, 2018 and 2017 was \$6,127,632 and \$6,468,060, respectively.

9. COLLECTION SHARING AGREEMENT

In December 2005, the Autry entered into a collection sharing agreement with another not-for-profit organization. Under the terms of the agreement, the Autry collaborates to provide a long-term presence of a historically significant collection of paintings and costumes in one of the museum’s galleries. The term of the agreement is 60 years with provisions for extension. Under the agreement, the Autry is required to pay a total of \$3,500,000 over a 15-year period from 2006 to 2020. The difference between the annual payment and the straight-line expense is recorded in other assets and amortized over the term of the agreement.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

10. RETIREMENT PLANS

The Autry maintains a 403(b) defined contribution plan (the “403(b) Plan”) to provide retirement benefits for eligible employees, who can elect to make voluntary tax deferred contributions to the 403(b) Plan from their salaries and wages, subject to limitations set by the IRC. The Autry can contribute, at the discretion of the Board, up to a maximum of 5% of the employee’s eligible compensation. Both employee and employer contributions to the 403(b) Plan vest immediately. The Autry contributed \$103,036 and \$87,208 to the 403(b) Plan for 2018 and 2017, respectively, representing 2% of the participating employees’ eligible compensation for each of the years. The cost of the employer contribution to the 403(b) Plan is recorded as fringe benefit expense.

The Autry maintains a 457(b) deferred compensation plan (the “457(b) Plan”) to provide retirement benefits for eligible employees, who can elect to make voluntary tax deferred contributions to the 457(b) Plan from their salaries, subject to limitations set by the IRC. The Autry does not make employer contributions to the 457(b) Plan. Employee contributions to the 457(b) Plan remain an asset and a liability of the Autry until the participating employees withdraw their accumulated balances. The Autry records the market value of the 457(b) Plan’s investments in other assets offset by an equal amount recorded in accrued liabilities.

11. NOTES PAYABLE

In August 2014, the Autry signed credit agreements with its bank for a three-year \$34,500,000 unsecured credit facility, consisting of (a) a \$30,500,000 construction line of credit and (b) a \$4,000,000 revolving operating line of credit. Any amounts drawn under the lines of credit are guaranteed by a member of the Board and a related trust.

In August 2017, when this credit facility expired, the Autry converted \$29,145,152 of outstanding principal on the construction line of credit to a five-year construction note, bearing interest at the bank’s prime rate less 1.65% or at LIBOR plus 0.95%. Monthly principal payments of approximately \$200,000 are due from October 2019 to August 2022, at which time any remaining principal becomes due in full in a balloon payment. At December 31, 2018 and 2017, there was \$28,145,152 and \$29,145,152, respectively, of debt outstanding on the construction note.

In August 2017, the Autry also renewed the \$4,000,000 revolving operating line of credit for two years, bearing interest at the bank’s prime rate less 1.90% or at Libor plus .95%. At December 31, 2018 and 2017, there was \$1,840,000 and \$0, respectively, of debt outstanding on the operating line of credit.

The interest rates in effect on the Autry’s borrowings at December 31, 2018 and 2017 ranged from 3.33% to 3.47% and from 2.41% to 2.51%, respectively.

Interest costs on the credit facility in the years ended December 31, 2018 and 2017 were \$864,053 and \$581,286, respectively.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

12. IN-KIND CONTRIBUTIONS OF GOODS AND SERVICES

The Autry received in-kind contributions of goods and services during the years ended December 31, 2018 and 2017, for which expenses were recorded in the financial statements, as follows:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------|-------------------|-------------------|
| Rent (Note 8) | \$ 340,428 | \$ 340,428 |
| Legal (Note 16) | 68,524 | 99,752 |
| Advertising | 83,065 | 46,651 |
| Auction items | - | 56,850 |
| Exhibition design materials | 22,540 | - |
| Entertainment | 8,400 | - |
| | <u>\$ 522,957</u> | <u>\$ 543,681</u> |

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

13. ENDOWMENT

The Autry's endowment consists of twelve individual funds established for various purposes, including both endowment funds with donor restrictions and Board-designated funds without donor restrictions which function as endowment. The funds are maintained in a single pooled investment account with a financial institution. The Finance Committee of the Board is responsible for the oversight and the investment of the endowment funds.

As required by U.S. GAAP, the net assets associated with endowment funds, including Board-designated funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions. The Autry's endowment investments represent the Autry's complete endowment fund. Contributions receivable restricted by donors for endowment are excluded from the Autry's endowment until received.

Effective January 2009, the State of California adopted the *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA") which governs California not-for-profit organizations with respect to the management, investment and expenditure of endowment funds with donor restrictions. The Finance Committee has interpreted California's adoption of UPMIFA as requiring the Autry to follow investment and spending policies that preserve the fair value of the original gift as of the date of gift of the endowment funds with donor restrictions, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Autry classifies as net assets with donor restrictions: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations of net realized and unrealized investment returns to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net realized and unrealized returns on the investment of endowment assets, other than those referenced in (c) in the preceding paragraph, are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Autry in a manner consistent with the standard of prudence prescribed by UPMIFA, and until expended in a manner consistent with the purpose or time restrictions, if any, imposed by the donor.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, in accordance with FASB ASC 958-320, *Investments – Debt and Equity Securities*, the portion of an endowment with donor restrictions representing the original value of gifts as well as donor-directed accumulations of net realized and unrealized investment returns is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the Autry to hold in perpetuity. Similarly, the amount of net assets with donor restrictions is not reduced by the Autry's appropriations from the fund. In the absence of donor stipulations or law to the contrary, losses or appropriations of an endowment with donor restrictions reduce net assets with donor restrictions to the extent that donor-imposed restrictions on net appreciation of the fund have been satisfied or expired before the loss or appropriation occurs. Any remaining loss or appropriation reduces net assets without donor restrictions.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

13. ENDOWMENT – Continued

In accordance with UPMIFA, the Autry considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- The duration and preservation of the fund.
- The purposes of the Autry and the endowment fund with donor restrictions.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and appreciation of investments.
- Other resources of the Autry.
- The investment policies of the Autry.

For the years ended December 31, 2018 and 2017, the Autry's endowment net assets changed as follows:

| | <u>2018</u> | | |
|-----------------------|----------------------------------|-----------------------------|-----------------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| | <u> </u> | <u> </u> | <u> </u> |
| Endowment net assets | | | |
| Beginning of the year | \$ 2,250,327 | \$ 8,067,315 | \$ 10,317,642 |
| Investment return | (108,836) | (390,175) | (499,011) |
| Distribution | <u>(147,641)</u> | <u>(529,258)</u> | <u>(676,899)</u> |
| End of the year | <u>\$ 1,993,850</u> | <u>\$ 7,147,882</u> | <u>\$ 9,141,732</u> |
| | <u>2017</u> | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| | <u> </u> | <u> </u> | <u> </u> |
| Endowment net assets | | | |
| Beginning of the year | \$ 2,011,379 | \$ 7,210,631 | \$ 9,222,010 |
| Investment return | 310,938 | 1,114,694 | 1,425,632 |
| Distribution | <u>(71,990)</u> | <u>(258,010)</u> | <u>(330,000)</u> |
| End of the year | <u>\$ 2,250,327</u> | <u>\$ 8,067,315</u> | <u>\$ 10,317,642</u> |

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

13. ENDOWMENT – Continued

Endowment Funds with Deficits

The fair value of assets associated with individual endowment funds with donor restrictions may fall below the value of the initial and subsequent donor gift amounts, resulting in a deficit. Deficits in endowment funds with donor restrictions are classified as a reductions of net assets without donor restrictions. Deficits associated with Board-designated funds functioning as endowments are likewise classified as a reduction of net assets without donor restrictions. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as an increase in net assets without donor restrictions. None of the endowment funds had deficits at December 31, 2018 and 2017.

Return Objective and Risk Parameters

In accordance with UPMIFA, the Finance Committee has adopted investment and spending policies for the endowment that attempt to provide a predictable stream of funding for the Autry’s programs and operations, while also seeking to maintain the long-term purchasing power of the endowment assets. Endowment assets include those assets of funds with donor restrictions that the Autry must hold in perpetuity or for a donor-specified period as well as Board-designated funds functioning as endowment. Under this policy, endowment assets are invested in a manner that is intended to produce results that achieve, over a five-year cycle, an average annual real rate of return of 5%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the Autry relies on a total return strategy, in which investment returns are achieved through both capital appreciation, i.e., realized and unrealized gains, and current yield, i.e., interest and dividends. The Autry targets a diversified asset allocation that places greater emphasis on investments in equities and fixed income to achieve its long-term objectives within prudent risk constraints, based on the following asset allocation ranges:

| | |
|------------------|-----------|
| Equities | 50% - 80% |
| Fixed income | 20% - 50% |
| Cash equivalents | 0% - 10% |

Relationship of Spending Policy to Investment Objectives

The Finance Committee has approved a policy of appropriating for annual distributions for operations up to a maximum of 5% of the Autry’s endowment funds’ average fair value over the trailing eight quarters ending either March 31 or June 30 in the fiscal year in which the distribution is planned. During a capital fundraising campaign, the Finance Committee may approve annual distributions in excess of 5%. In establishing this policy, the Finance Committee considered the expected return on its endowment. Accordingly, the Finance Committee expects the current spending policy to allow the endowment to maintain its purchasing power by growing at a rate equal to or greater than planned distributions plus inflation over a complete market cycle. Additional real growth will be provided through new gifts and investment returns in excess of appropriations. Depending upon market conditions and the needs and available resources of the Autry, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment. In accordance with the Autry’s spending policy, \$676,899 and \$330,000 were appropriated for operations during the years ended December 31, 2018 and 2017, respectively.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

14. NET ASSETS

Net Assets without Donor Restrictions

Net assets without donor restrictions consisted of the following at December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|----------------------|----------------------|
| Undesignated | \$ 32,777,346 | \$ 34,391,526 |
| Funds functioning as endowment | 1,993,850 | 2,250,327 |
| | <u>\$ 34,771,196</u> | <u>\$ 36,641,853</u> |

The Board of Trustees occasionally designates proceeds from unique transactions as funds functioning as endowments. All other net assets without donor restrictions derive from operations and are undesignated.

Net Assets with Donor Restrictions

Net assets with donor restrictions were available for the following purposes at December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Capital campaign | \$ 20,196,430 | \$ 19,666,122 |
| Annual operations | 64,657,561 | 67,762,470 |
| Special fundraising events | | |
| Masters of the West art exhibition and sale | 432,097 | 593,735 |
| Fall celebration | 50,000 | 80,000 |
| Exhibitions and research | | |
| Exhibitions and galleries | 1,125,050 | 742,446 |
| Collections | 844,773 | 620,008 |
| Public programs and education | | |
| Native Voices resident theatre company | 269,700 | 159,000 |
| American Indian Arts Marketplace event | 5,000 | 20,346 |
| Education and outreach | 41,000 | 40,176 |
| Land lease (Note 8) | 6,127,632 | 6,468,060 |
| Endowments with donor restrictions (Note 13) | | |
| Accumulated investment return | 1,845,328 | 2,764,762 |
| Original gift principal | 5,302,553 | 5,302,553 |
| Future endowments with donor restrictions | 69,900,488 | 67,238,341 |
| | <u>\$ 170,797,612</u> | <u>\$ 171,458,019</u> |

Releases of Net Assets from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of other events specified by donors, or by the passage of time.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

15. COMMITMENTS

Operating Leases

The Autry has two operating leases for office equipment that expire in 2022. The expense for operating leases for the years ended December 31, 2018 and 2017 were \$24,185 and \$26,287, respectively.

Future minimum annual lease payments required under operating leases that have an initial or remaining lease term in excess of one year as of December 31, 2018 are as follows:

Years

| | |
|------------------------------|-------------------------|
| 2019 | \$ 24,185 |
| 2020 | 24,185 |
| 2021 | 24,185 |
| 2022 | 14,441 |
| 2023 | - |
| Thereafter | - |
| | <hr/> |
| Total minimum lease payments | <u><u>\$ 86,996</u></u> |

Contractual Obligations

The Autry has entered into multi-year contractual obligations with various parties for a collection sharing agreement (Note 9), for acquisition of items for the collections and for information technology services. Future annual payments required under these contractual obligations at December 31, 2018 are as follows:

Years

| | |
|-------------------------------|----------------------------|
| 2019 | \$ 496,398 |
| 2020 | 382,607 |
| 2021 | 60,715 |
| 2022 | 60,715 |
| 2023 | 35,710 |
| Thereafter | - |
| | <hr/> |
| Total contractual obligations | <u><u>\$ 1,036,145</u></u> |

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

16. RELATED PARTY TRANSACTIONS

The Autry has received the following pledges of annual contributions and endowments from a member of the Board and a related trust:

- In March 2000, the Autry received a pledge of an annual contribution of \$6,000,000 per year, and a pledge of \$100,000,000 for its endowment. The annual pledge payments of \$6,000,000 will continue until the donor's passing, at which time the Autry will receive the \$100,000,000 pledge payment from the donor's estate.
- In May 2002, the Autry received an additional pledge of an annual contribution of \$50,000 for a curatorial position, which is to continue after the donor's passing pursuant to certain conditions.
- In January 2007, the Autry received an additional pledge of \$25,000,000 for its endowment, which at the donor's passing the Autry will receive from the donor's estate.
- In April 2013, the Autry received a conditional pledge up to \$25,000,000, which is a matching pledge contingent upon campaign pledges received on or before March 31, 2019 from members of the Board and certain third parties. The matching pledge is on a 1:1 basis and is payable upon the donor's passing. Cumulative revenues of \$19,180,925 and \$16,176,603 have been recorded related to this matching pledge as of December 31, 2018 and 2017, respectively.
- In November 2014, the Autry received a pledge which consolidated the prior annual commitments indicated above totaling \$6,050,000, together with a new annual commitment of \$1,400,000 commencing in 2015. The annual pledge payments of \$7,450,000 will continue until the donor's passing, at which time the Autry will receive the endowment pledges above totaling \$125,000,000 from the donor's estate.
- The Autry received payments of \$7,450,000 pursuant to the above annual commitment pledges during each of the years ended December 31, 2018 and 2017, respectively.

The Autry received contributions of \$10,873,022 and \$18,037,725 during the years ended December 31, 2018 and 2017, respectively, from members of the Board and their related foundations and trusts. The contributions include donated legal services from a member of the Board, totaling \$68,524 and \$99,752, for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, gross contributions receivable include \$154,548,823 and \$154,110,980 due from members of the Board and their related foundations and trusts, of which approximately 95% and 94%, respectively, is pledged by one member of the Board and a related trust.

Autry Museum of the American West
Notes to Financial Statements - Continued
As of and for the years ended December 31, 2018 and 2017

17. CONTINGENCIES

Grants and contracts awarded to the Autry are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged, and are subject to audit under such criteria, terms and regulations. Occasionally, such audits may determine that certain costs charged to grants or contracts do not comply with the established criteria. In such cases, the Autry could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for grants and contracts administered during the years ended December 31, 2018 and 2017.

In the normal course of business, the Autry may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of the Autry at December 31, 2018 and 2017.

18. SUBSEQUENT EVENTS

As required by FASB ASC 855, *Subsequent Events*, the Autry evaluated its December 31, 2018 financial statements for subsequent events through May 24, 2019, the date the financial statements were available to be issued, noting no events that affect the financial statements at December 31, 2018.