

**Hill-Stead Museum**

**Consolidated Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Report**

**December 31, 2017 and 2016**

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# Hill-Stead Museum

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Independent Auditor's Report

To the Board of Trustees  
Hill-Stead Museum

We have audited the accompanying consolidated financial statements of Hill-Stead Museum (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hill-Stead Museum as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated statement of functional expenses on page 23 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*CohnReznick LLP*

Hartford, Connecticut  
April 27, 2018

## Hill-Stead Museum

### Consolidated Statements of Financial Position December 31, 2017 and 2016

	<u>Assets</u>	
	2017	2016
Current assets		
Cash	\$ 178,178	\$ 159,367
Accounts receivable, net of allowance for doubtful accounts of \$2,368 and \$2,450	55,564	58,123
Unconditional promises to give	62,000	48,602
Inventory	49,610	49,841
Prepaid expenses	19,763	15,511
Total current assets	365,115	331,444
Equipment and building improvements, net	719,700	774,948
Other assets		
Investments	4,584,929	4,074,706
Total assets	\$ 5,669,744	\$ 5,181,098
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 49,227	\$ 49,645
Deferred revenue	37,949	29,136
Security deposits	3,500	1,500
Total current liabilities	90,676	80,281
Commitments		
Net assets		
Unrestricted		
Equipment and building improvements	719,700	774,948
Board designated	54,955	19,955
Undesignated	450,556	282,617
Temporarily restricted		
Purpose	150,548	176,486
Endowment	2,772,843	2,416,345
Permanently restricted	1,430,466	1,430,466
Total net assets	5,579,068	5,100,817
Total liabilities and net assets	\$ 5,669,744	\$ 5,181,098

See Notes to Consolidated Financial Statements.

**Hill-Stead Museum**

**Consolidated Statement of Activities  
Year Ended December 31, 2017**

	Unrestricted		Total	Temporarily restricted	Permanently restricted	Total
	Operating	Non-operating				
<b>Revenues</b>						
Government grants	\$ 23,675	\$ -	\$ 23,675	\$ 17,495	\$ -	\$ 41,170
Foundation grants	58,597	-	58,597	43,472	-	102,069
Corporate contributions	38,733	-	38,733	32,500	-	71,233
Individual contributions	439,915	-	439,915	47,438	-	487,353
Benefit events, net of expense of \$107,259	266,701	-	266,701	-	-	266,701
Admission and program fees	197,821	-	197,821	-	-	197,821
Retail sales	69,039	-	69,039	-	-	69,039
Fees - special events	128,355	-	128,355	-	-	128,355
Investment income, net of expense	51,320	183,404	234,724	416,390	-	651,114
Distributions in excess of net investment income	82,518	(22,627)	59,891	(59,891)	-	-
Net assets released from restrictions	90,954	75,890	166,844	(166,844)	-	-
Total revenues	<u>1,447,628</u>	<u>236,667</u>	<u>1,684,295</u>	<u>330,560</u>	<u>-</u>	<u>2,014,855</u>
<b>Expenses</b>						
Program expenses	1,005,089	113,428	1,118,517	-	-	1,118,517
Administrative expenses	223,677	20,404	244,081	-	-	244,081
Fundraising expenses	170,044	3,962	174,006	-	-	174,006
Total expenses	<u>1,398,810</u>	<u>137,794</u>	<u>1,536,604</u>	<u>-</u>	<u>-</u>	<u>1,536,604</u>
<b>Other changes</b>						
Transfer to capital repairs and maintenance reserve	(35,000)	35,000	-	-	-	-
Change in net assets	<u>\$ 13,818</u>	<u>\$ 133,873</u>	147,691	330,560	-	478,251
Net assets, beginning			<u>1,077,520</u>	<u>2,592,831</u>	<u>1,430,466</u>	<u>5,100,817</u>
Net assets, end			<u>\$ 1,225,211</u>	<u>\$ 2,923,391</u>	<u>\$ 1,430,466</u>	<u>\$ 5,579,068</u>

See Notes to Consolidated Financial Statements.

## Hill-Stead Museum

### Consolidated Statement of Activities Year Ended December 31, 2016

	Unrestricted		Total	Temporarily restricted	Permanently restricted	Total
	Operating	Non-operating				
<b>Revenues</b>						
Government grants	\$ 37,127	\$ -	\$ 37,127	\$ 23,007	\$ -	\$ 60,134
Foundation grants	82,153	-	82,153	19,722	1,500	103,375
Corporate contributions	21,796	-	21,796	32,725	-	54,521
Individual contributions	440,965	-	440,965	46,090	25	487,080
Benefit events, net of expense of \$118,032	242,081	-	242,081	-	-	242,081
Admission and program fees	239,905	-	239,905	-	-	239,905
Retail sales	60,580	-	60,580	-	-	60,580
Fees - special events	125,330	-	125,330	-	-	125,330
Investment income, net of expense	54,432	33,262	87,694	101,167	-	188,861
Distributions in excess of net investment income	80,024	(23,884)	56,140	(56,140)	-	-
Net assets released from restrictions	106,434	191,283	297,717	(297,717)	-	-
Total revenues	<u>1,490,827</u>	<u>200,661</u>	<u>1,691,488</u>	<u>(131,146)</u>	<u>1,525</u>	<u>1,561,867</u>
<b>Expenses</b>						
Program expenses	1,060,286	278,973	1,339,259	-	-	1,339,259
Administrative expenses	220,653	23,472	244,125	-	-	244,125
Fundraising expenses	177,432	4,560	181,992	-	-	181,992
Total expenses	<u>1,458,371</u>	<u>307,005</u>	<u>1,765,376</u>	<u>-</u>	<u>-</u>	<u>1,765,376</u>
<b>Other changes</b>						
Transfer to capital repairs and maintenance reserve	(20,000)	20,000	-	-	-	-
Change in net assets	<u>\$ 12,456</u>	<u>\$ (86,344)</u>	<u>(73,888)</u>	<u>(131,146)</u>	<u>1,525</u>	<u>(203,509)</u>
Net assets, beginning			<u>1,151,408</u>	<u>2,723,977</u>	<u>1,428,941</u>	<u>5,304,326</u>
Net assets, end			<u>\$ 1,077,520</u>	<u>\$ 2,592,831</u>	<u>\$ 1,430,466</u>	<u>\$ 5,100,817</u>

See Notes to Consolidated Financial Statements.

**Hill-Stead Museum**

**Consolidated Statements of Cash Flows  
Years Ended December 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 478,251	\$ (203,509)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	102,015	117,362
Unrealized and realized gain on investments	(599,794)	(134,429)
Restricted capital contributions and endowments	(140,905)	(123,069)
Changes in operating assets and liabilities		
Accounts receivable	2,559	(8,467)
Unconditional promises to give	(13,398)	133,533
Inventory	231	(8,178)
Prepaid expenses	(4,252)	(1,453)
Accounts payable and accrued expenses	(418)	(13,583)
Deferred revenue	8,813	(4,591)
Security deposits	2,000	(800)
Net cash used in operating activities	(164,898)	(247,184)
Cash flows from investing activities		
Proceeds from net sale of investments	89,571	52,869
Purchase of equipment and building improvements	(46,767)	(18,256)
Net cash provided by investing activities	42,804	34,613
Cash flows from financing activities		
Restricted capital contributions and endowments	140,905	123,069
Net cash provided by financing activities	140,905	123,069
Net increase (decrease) in cash	18,811	(89,502)
Cash, beginning	159,367	248,869
Cash, end	\$ 178,178	\$ 159,367

See Notes to Consolidated Financial Statements.



## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

#### Note 1 - Organization and summary of significant accounting policies

##### Organization

Hill-Stead Museum was established in 1946 as an educational and charitable trust in accordance with a bequest made under Theodate Pope Riddle's Last Will and Testament (the "Will"). The accompanying consolidated financial statements include the accounts of the Hill-Stead Museum and its affiliate, the Hill-Stead Museum Board of Governors, Inc. (collectively the "Museum"). All intercompany transactions and accounts have been eliminated in consolidation.

The Museum's collection in Farmington, Connecticut, includes a 152 acre estate, gardens, a 1901 Colonial Revival-style country house with attached servants' quarters and theater as well as eight other historic buildings. Housed within these buildings are holdings such as French Impressionist paintings, prints, sculptures, ceramics, furnishings, intact domestic interiors and archives. The Will deemed that these items were integral to the Museum's purpose and be safeguarded in perpetuity.

Hill-Stead Museum Board of Governors, Inc. was created to expand the governance of Hill-Stead Museum and to be the repository to hold certain endowment funds and other collection items.

##### Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Museum reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Governors.

Temporarily restricted - Net assets whose use by the Museum is subject to explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Museum or that expire by the passage of time.

Permanently restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Museum and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor-imposed stipulations or by operation of law.

##### Museum collections

In keeping with standard museum practice, the Museum's collection of real estate, architecture and art are not recognized as assets in the accompanying consolidated statements of financial position as these are held by the Museum as a collection for preservation and public enrichment. The Museum is precluded from selling or replacing items within the collection. Museum policy limits the use of proceeds from insurance solely for the acquisition of other collection items.

##### Tax exempt status

Hill-Stead Museum and the Hill-Stead Museum Board of Governors, Inc. are organized as nonprofit entities under Section 501(c)(3) of the Internal Revenue Code and, as such, are not subject to federal or state corporate income taxes.

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

The Museum has no unrecognized tax benefits at December 31, 2017 and 2016. The Museum's federal information returns prior to fiscal year 2014 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Museum had unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the consolidated statements of financial position.

#### **Cash and cash equivalents**

Cash and cash equivalents include all cash balances and highly liquid short-term investments with an original maturity of three months or less when acquired. At December 31, 2017 and 2016, the Museum had no cash equivalents.

#### **Accounts receivable**

All receivables are recorded when billed or when cash is advanced and represent claims due from third parties that will be settled in cash. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and an allowance is established accordingly. Past-due receivable balances are written-off when the Museum's internal collection efforts have been unsuccessful in collecting the amount due. The allowance was \$2,368 and \$2,450 as of December 31, 2017 and 2016, respectively.

#### **Pledges, contributions and grants**

Promises to give are recorded at fair value when received. Conditional promises to give are recognized when conditions on which they depend are substantially met. Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Pledges received over future periods are presented at the present value of estimated future cash flows using a historical discount rate. There were no long-term pledges as of December 31, 2017 and 2016. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

#### Equipment and building improvements

Equipment and building improvements are recorded at cost less accumulated depreciation. Expenditures for major additions and improvements are capitalized while major maintenance activities are expensed as incurred. Depreciation is provided over the estimated useful lives of these assets using the straight-line method. No salvage value is assumed for depreciable property and equipment. The estimated useful lives for significant equipment and building improvements categories are as follows:

<u>Asset</u>	<u>Estimated lives</u>
Building improvements	5 - 15 years
Equipment	3 - 5 years
Furniture and fixtures	5 - 15 years

#### Impairment of long-lived assets

The Museum reviews its long-lived assets for impairment whenever events or circumstances indicate the carrying amount of the assets may not be recoverable. If such impairment indicators are present, the Museum recognizes a loss on the basis of whether these amounts are fully recoverable from projected discounted cash flows of the related asset. There were no impairment indicators or impairment losses for the years ended December 31, 2017 or 2016.

#### Inventory

Inventory is stated at the lower of cost or market as determined by the first-in first-out method. The inventory consists of gift shop memorabilia.

#### Investments

The Museum carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities.

#### Endowment and spending policy

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Governors, the endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in account performance.

To satisfy its long-term rate of return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Museum has a policy of appropriating for distribution each year 4%-6% of its endowment fund's average fair value over the prior 20 quarters through the year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long-term, the

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

Museum expects the current spending policy to allow its endowment to grow at an average of 4% annually.

This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Appropriations made in accordance with this policy were \$96,541 and \$96,447 for the years ended December 31, 2017 and 2016, respectively.

#### **Revenue recognition**

Admission and program fees consist of admission and educational program fees to the Museum, facility rental fees and fees related to collection items. Revenue is recognized when the services are provided. Fees received in advance are deferred until the service is provided. Retail sales are recorded when products are sold.

#### **Donated property and equipment**

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The Museum recognizes donated services at their estimated fair value if they create or enhance nonfinancial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition in the consolidated financial statements. There were no such donated services for the years ended December 31, 2017 and 2016.

#### **Fundraising expenses**

The Museum is currently involved in several fundraising activities, including the Annual Fund, Planned Giving and other ongoing initiatives. Expenses related to these fundraising campaigns are included in fundraising expenses.

#### **Expense allocation**

The cost of providing various programs and activities has been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain administrative costs have been allocated among programs.

#### **Advertising**

Advertising costs, other than for direct response advertising, are expensed as incurred and amounted to \$32,306 and \$31,395 for the years ended December 31, 2017 and 2016, respectively. Costs related to direct response advertising are capitalized as incurred and amortized over the benefit period. There were no direct response advertising costs for the years ended December 31, 2017 and 2016.

#### **Use of estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation.

#### **Subsequent events**

The Museum has evaluated subsequent events through April 27, 2018, which is the date the financial statements were available to be issued.

#### **Note 2 - Concentrations and other risks and uncertainties**

Financial instruments which potentially subject the Museum to concentrations of credit risk consist primarily of cash, investments and receivables. The Museum maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits. At December 31, 2017 and 2016, there were no amounts in excess of federally insured limits.

Concentrations of credit risk with respect to grants receivable are limited to contractual agreements with various state organizations. Pledges receivable are limited to pledges from various foundations, businesses and individuals with no major receivables from any one group. Concentrations of credit risk with respect to accounts receivable consist of amounts due for program fees and other services.

The Museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

**Hill-Stead Museum**

**Notes to Consolidated Financial Statements  
December 31, 2017 and 2016**

**Note 3 - Investments**

Investments are carried at their aggregate fair value. The following summarizes the relationship between the cost and fair values as presented in the consolidated financial statements as of December 31, 2017 and 2016:

	2017		
	Cost	Fair value	Unrealized gain (loss)
Money market	\$ 92,863	\$ 92,863	\$ -
Equities	931,635	1,198,104	266,469
Fixed income	332,087	325,531	(6,556)
Mutual funds - balanced	132,055	144,012	11,957
Mutual funds - commodities	126,176	85,072	(41,104)
Mutual funds - fixed income	205,842	199,823	(6,019)
Mutual funds - equity	717,247	853,633	136,386
Mutual funds - real estate	156,853	180,575	23,722
Collective funds - fixed	522,127	522,140	13
Collective funds - equity	693,611	983,176	289,565
<b>Total</b>	<b>\$ 3,910,496</b>	<b>\$ 4,584,929</b>	<b>\$ 674,433</b>

  

	2016		
	Cost	Fair value	Unrealized gain (loss)
Money market	\$ 132,799	\$ 132,799	\$ -
Equities	864,268	943,559	79,291
Fixed income	370,909	361,293	(9,616)
Mutual funds - balanced	55,795	59,895	4,100
Mutual funds - commodities	132,528	85,674	(46,854)
Mutual funds - fixed income	304,326	287,337	(16,989)
Mutual funds - equity	694,123	690,332	(3,791)
Mutual funds - real estate	168,543	187,825	19,282
Collective funds - fixed	551,744	545,568	(6,176)
Collective funds - equity	689,331	780,424	91,093
<b>Total</b>	<b>\$ 3,964,366</b>	<b>\$ 4,074,706</b>	<b>\$ 110,340</b>

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

Investment income is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 85,229	\$ 86,808
Realized gain (loss)	35,701	(9,767)
Unrealized gain	564,093	144,196
Investment/bank fees	<u>(33,909)</u>	<u>(32,376)</u>
Total	<u>\$ 651,114</u>	<u>\$ 188,861</u>

Investment returns are classified in the consolidated statements of activities based on the purpose of the fund. Investment returns on donor-restricted funds are classified as temporarily restricted until the restriction criterion is met. Investment income included in operating revenues reflects interest and dividends earned on unrestricted investments.

#### Note 4 - Fair value measurements

The Museum values its financial assets and liabilities based on the price 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs which are used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2: Observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to level 3 inputs.

In determining fair value, the Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

The Museum's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers in or out of the respective levels during the years ended December 31, 2017 and 2016.

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

Financial assets carried at fair value at December 31, 2017 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market	\$ 92,863	\$ -	\$ -	\$ 92,863
Equities	1,198,104	-	-	1,198,104
Fixed income	325,531	-	-	325,531
Mutual funds - balanced	144,012	-	-	144,012
Mutual funds - commodities	85,072	-	-	85,072
Mutual funds - fixed income	199,823	-	-	199,823
Mutual funds - equity	853,633	-	-	853,633
Mutual funds - real estate	180,575	-	-	180,575
	<u>\$ 3,079,613</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,079,613</u>
Total investments in the fair value hierarchy				
Collective funds - fixed				522,140
Collective funds - equity				983,176
Total investments measured at net asset value				1,505,316
Total investments at fair value				\$ 4,584,929

Financial assets carried at fair value at December 31, 2016 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market	\$ 132,799	\$ -	\$ -	\$ 132,799
Equities	943,559	-	-	943,559
Fixed income	361,293	-	-	361,293
Mutual funds - balanced	59,895	-	-	59,895
Mutual funds - commodities	85,674	-	-	85,674
Mutual funds - fixed income	287,337	-	-	287,337
Mutual funds - equity	690,332	-	-	690,332
Mutual funds - real estate	187,825	-	-	187,825
	<u>\$ 2,748,714</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,748,714</u>
Total investments in the fair value hierarchy				
Collective funds - fixed				545,568
Collective funds - equity				780,424
Total investments measured at net asset value				1,325,992
Total investments at fair value				\$ 4,074,706



## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Money market, equities and mutual funds are designated as Level 1 instruments and are valued using readily-available pricing sources for identical instruments. Mutual funds are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. Mutual funds held by the Museum are deemed to be actively traded. The fair value of the collective funds is based on the NAV. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

During 2017, the Museum adopted the provisions of Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share* ("ASU 2015-07"), which modifies the fair value presentation for investments valued using NAV. As a result, in accordance with ASU 2015-07, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Collective fund investments valued using NAV at December 31, 2017 are as follows:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently available)</u>	<u>Redemption notice period</u>
Collective funds - fixed (a)	\$ 522,140	\$ -	Weekly	None
Collective funds - equity (b)	<u>983,176</u>	<u>-</u>	Weekly	None
Total	<u>\$ 1,505,316</u>	<u>\$ -</u>		

- a) This category includes several funds that invest in domestic and international equities with a variety of investment strategies.
- b) This category invests in high-quality, diversified-core, fixed-income bonds.

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

Collective fund investments valued using NAV at December 31, 2016 are as follows:

	Fair value	Unfunded commitments	Redemption frequency (if currently available)	Redemption notice period
Collective funds - fixed (a)	\$ 545,568	\$ -	Weekly	None
Collective funds - equity (b)	780,424	-	Weekly	None
Total	\$ 1,325,992	\$ -		

a) This category includes several funds that invest in domestic and international equities with a variety of investment strategies.

b) This category invests in high-quality, diversified-core, fixed-income bonds.

#### Note 5 - Unconditional promises to give

Unconditional promises to give were \$62,000 and \$48,602 at December 31, 2017 and 2016, respectively. Amounts receivable in more than one year are discounted to net present value. There were no amounts receivable in more than one year at December 31, 2017 and 2016.

#### Note 6 - Equipment and building improvements

A summary of equipment and building improvements is as follows:

	2017	2016
Improvements	\$ 2,366,307	\$ 2,356,330
Equipment	221,502	218,032
Furniture and fixtures	21,449	21,449
Subtotals	2,609,258	2,595,811
Less accumulated depreciation	(1,907,599)	(1,825,853)
Construction in progress	18,041	4,990
Total	\$ 719,700	\$ 774,948

#### Note 7 - Line of credit

The Museum has a \$200,000 line of credit with Farmington Bank. The line of credit is due on demand and bears interest at the greater of 3.5% or the prime rate plus 25 basis points (4.75% at December 31, 2017) and is collateralized by \$709,205 of Museum securities. There was no outstanding balance or interest expense for the years ending December 31, 2017 and 2016.

#### Note 8 - Deferred revenue

Deferred revenue consists of amounts related to specific exchange transaction grants, fundraising, events, programs and special event fees that will be expended in future years. As of December 31, 2017 and 2016, deferred revenue was \$37,949 and \$29,136, respectively.

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

#### Note 9 - Board-designated net assets

During the years ended December 31, 2017 and 2016, the Board of Directors designated \$35,000 and \$20,000, respectively, from its operating fund to a capital repairs and maintenance reserve. During the year ended December 31, 2017, none of this reserve was used for capital repairs and maintenance. During the year ended December 31, 2016, \$10,045 of this reserve was used for capital repairs and maintenance. The reserve balance was \$54,955 and \$19,955 as of December 31, 2017 and 2016, respectively.

#### Note 10 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes:

Purpose	2017	2016
Collections, Capital Projects	\$ 67,467	\$ 47,483
SBM Education Programs	32,500	28,500
Educational Programs	24,000	1,358
Poetry Festival and Related Outreach Activities	17,658	27,497
Carriage Barn Visitors Center	6,305	7,000
Garmany - music	1,474	3,706
Friends of Hill-Stead, Inc.	814	814
Security and Protection Upgrade	330	35,380
CT DECD Directed Local Funding	-	20,523
FBCF Education Programs	-	4,225
Endowment	-	-
Theodate-Pope Riddle Trust	2,772,843	2,416,345
Total	\$ 2,923,391	\$ 2,592,831

#### Note 11 - Permanently restricted net assets

Permanently restricted net asset balances are summarized as follows:

	2017	2016
Theodate-Pope Riddle Trust	\$ 400,000	\$ 400,000
Board of Governors, Inc.	839,060	839,060
Nina Stanley Education Fund	91,153	91,153
General Endowment	57,945	57,945
Larsen Endowment	31,033	31,033
Phyllis Joffe Poetry Endowment	11,275	11,275
Total	\$ 1,430,466	\$ 1,430,466

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

#### Note 12 - Endowment

The Museum's endowment consists of donor-restricted funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Board of Governors of the Museum has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CTUPMIFA") 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 Museum classifies as permanently restricted net assets: (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 direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by CTUPMIFA. In accordance with CTUPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Museum and the donor-restricted endowment fund
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 Museum
7. The investment policies of the Museum

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted Endowment funds	<u>\$ -</u>	<u>\$ 2,772,843</u>	<u>\$ 1,430,466</u>	<u>\$ 4,203,309</u>

**Hill-Stead Museum**

**Notes to Consolidated Financial Statements  
December 31, 2017 and 2016**

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,416,345	\$ 1,430,466	\$ 3,846,811
Net realized and unrealized appreciation	-	416,390	-	416,390
Interest and dividends, net of fees	-	36,649	-	36,649
Appropriations	-	(96,541)	-	(96,541)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,772,843</u>	<u>\$ 1,430,466</u>	<u>\$ 4,203,309</u>

Endowment net asset composition by type of fund as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted Endowment funds	<u>\$ -</u>	<u>\$ 2,416,345</u>	<u>\$ 1,430,466</u>	<u>\$ 3,846,811</u>

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,371,321	\$ 1,428,941	\$ 3,800,262
Net realized and unrealized depreciation	-	101,167	-	101,167
Interest and dividends, net of fees	-	40,304	-	40,304
Appropriations	-	(96,447)	-	(96,447)
Contributions	-	-	1,525	1,525
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,416,345</u>	<u>\$ 1,430,466</u>	<u>\$ 3,846,811</u>

**Funds with deficiencies**

From time to time, the fair market value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CTUPMIFA requires the Museum to retain as a fund of perpetual duration. As of December 31, 2017 and 2016, these deficiencies totaled \$135,185 and \$205,193, respectively.

**Note 13 - Commitments**

**Operating lease commitments**

The Museum has noncancelable operating leases for office equipment expiring at various dates through 2018. Total rental expense under operating leases was \$8,217 and \$8,393 for the years ended December 31, 2017 and 2016, respectively.

## Hill-Stead Museum

### Notes to Consolidated Financial Statements December 31, 2017 and 2016

The aggregate annual minimum lease commitment under noncancelable operating leases in each of the years subsequent to December 31, 2017 are as follows:

2018	<u>\$</u>	<u>1,394</u>
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#### Note 14 - Insurance

The Museum carries insurance coverage for protection of its assets and operations from certain risks including automobile and vehicle liability, general liability, real and personal property, workers' compensation, and other coverage that management believes is customary to the industry. Exposure to loss for insurance claims is generally limited to the per incident deductible under the related insurance policy. Exposure, however, could increase in the unlikely event that the insurers were unable to meet their commitments on a timely basis.

#### Note 15 - Tax deferred annuity plan

The Museum established a tax deferred annuity plan under the provisions of Section 403(b) of the Internal Revenue Code and the Employee Retirement Income Security Act of 1974. Under the plan, all employees except seasonal and temporary employees are eligible to participate. Eligible employees can make contributions after 30 days of employment. The Museum makes no contributions to this plan.

#### Note 16 - Defined contribution retirement plan

The Museum has implemented a defined contribution retirement plan. Semi-annually, the Museum makes plan contributions for employees who have satisfied the eligibility requirements.

The Museum's contributions to this plan were \$13,081 and \$13,749 for the years ended December 31, 2017 and 2016, respectively.

#### Note 17 - Related party transactions

During the year 2015, the Hill-Stead Museum entered into a \$47,000 loan agreement with its affiliate, the Hill-Stead Museum Board of Governors, Inc. The loan bore interest at 2% and was fully repaid during 2016. All intercompany transactions and accounts have been eliminated in consolidation.

## **Supplementary Information**

## Hill-Stead Museum

### Consolidated Statement of Functional Expenses Year Ended December 31, 2017 (With Comparative Totals for 2016)

	Educational and visitor services	Collections and conservation	Poetry programs	Total program	Fundraising	Administrative	2017 Total	2016 Total
Salaries and benefits	\$ 305,287	\$ 138,208	\$ 48,922	\$ 492,417	\$ 117,067	\$ 129,898	\$ 739,382	\$ 739,548
Contract - technical, artistic and educators	52,452	25,583	53,811	131,846	21,209	33,576	186,631	239,049
Maintenance contracts and repairs	-	91,838	-	91,838	-	-	91,838	83,094
Utilities	7,532	38,825	1,264	47,621	2,430	12,513	62,564	67,231
Insurance	8,826	19,330	1,458	29,614	2,471	16,435	48,520	49,859
Professional fees	18,247	7,210	1,527	26,984	11,989	11,584	50,557	44,426
Technology	19,511	7,853	1,990	29,354	7,567	4,776	41,697	38,354
Advertising	21,250	-	10,891	32,141	25	140	32,306	31,395
Supplies	9,311	6,071	893	16,275	1,056	2,802	20,133	30,299
Merchandise	29,630	-	768	30,398	-	-	30,398	29,212
Contract - catering	7,108	-	4,520	11,628	786	1,869	14,283	24,394
Printing	18,964	2,255	4,154	25,373	465	68	25,906	23,463
Professional development and travel	7,543	315	4,132	11,990	142	6,326	18,458	23,020
Equipment rental	4,798	1,232	1,886	7,916	1,561	986	10,463	13,168
HVAC - maintenance and repairs	-	12,330	-	12,330	-	-	12,330	12,422
Postage	4,928	6	75	5,009	904	687	6,600	6,042
Dues and memberships	1,720	635	-	2,355	2,372	1,769	6,496	3,395
Interest	-	-	-	-	-	248	248	-
Total operating expenses	<u>517,107</u>	<u>351,691</u>	<u>136,291</u>	<u>1,005,089</u>	<u>170,044</u>	<u>223,677</u>	<u>1,398,810</u>	<u>1,458,371</u>
Non-operating	-	35,779	-	35,779	-	-	35,779	189,643
Depreciation expense	12,281	63,307	2,061	77,649	3,962	20,404	102,015	117,362
Total functional expenses	<u>\$ 529,388</u>	<u>\$ 450,777</u>	<u>\$ 138,352</u>	<u>\$ 1,118,517</u>	<u>\$ 174,006</u>	<u>\$ 244,081</u>	<u>\$ 1,536,604</u>	<u>\$ 1,765,376</u>

See Independent Auditor's Report.



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