

**SHENANDOAH VALLEY
DISCOVERY MUSEUM, INC.**

FINANCIAL REPORT

December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shenandoah Valley Discovery Museum, Inc.
Winchester, Virginia

We have audited the accompanying financial statements of the Shenandoah Valley Discovery Museum, Inc. (the "Museum"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows 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 audits 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 Museum'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 Museum'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.

Your Success is Our Focus

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Valley Discovery Museum, Inc. as of December 31, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1 of the financial statements, Shenandoah Valley Discovery Museum changed its method of accounting revenue, effective January 1, 2019, due to the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this manner.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 24, 2020

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 157,558	\$ 200,078
Contributions receivable, current (Note 2)	13,585	10,323
Inventory	9,411	8,164
Prepaid expenses	9,982	9,982
	190,536	228,547
OTHER ASSETS		
Contributions receivable, net of current portion (Note 2)	41,141	47,567
Investments (Notes 3 and 4)	627,189	448,722
Cash value of life insurance	39,824	38,035
Capital Reserve Fund (Note 3)	33,248	19,533
Property and equipment, net (Note 5)	3,968,748	4,198,325
	\$ 4,900,686	\$ 4,980,729
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 13,166	\$ 12,857
Accrued expenses	4,443	22,702
Deferred member dues	48,544	42,081
	66,153	77,640
NET ASSETS		
Without donor restrictions	4,101,998	4,371,646
With donor restrictions (Note 7)	732,535	531,443
	4,834,533	4,903,089
Total liabilities and net assets	\$ 4,900,686	\$ 4,980,729

The Notes to Financial Statements are an integral part of these statements.

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

STATEMENTS OF ACTIVITIES
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 91,987	\$ 126,421	\$ 218,408
Admissions	450,947	-	450,947
Special events, net of related expenses of \$12,704	44,167	-	44,167
In-kind contributions	20,713	-	20,713
Membership dues	89,950	-	89,950
Museum shop sales	29,038	-	29,038
Miscellaneous	6,669	-	6,669
Investment income, net (Notes 3 and 4)	8,194	78,391	86,585
Net assets released from restriction	3,720	(3,720)	-
Total revenues, gains, and other support	<u>745,385</u>	<u>201,092</u>	<u>946,477</u>
EXPENSES			
Program services	842,621	-	842,621
Management and general	125,673	-	125,673
Fundraising	46,739	-	46,739
Total expenses	<u>1,015,033</u>	<u>-</u>	<u>1,015,033</u>
Change in net assets	(269,648)	201,092	(68,556)
NET ASSETS			
Beginning	<u>4,371,646</u>	<u>531,443</u>	<u>4,903,089</u>
Ending	<u>\$ 4,101,998</u>	<u>\$ 732,535</u>	<u>\$ 4,834,533</u>

The Notes to Financial Statements are an integral part of this statement.

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 153,029	\$ 201,682	\$ 354,711
Admissions	474,578	-	474,578
Special events, net of related expenses of \$10,763	44,530	-	44,530
In-kind contributions	28,461	-	28,461
Membership dues	80,639	-	80,639
Museum shop sales	35,929	-	35,929
Miscellaneous	9,137	-	9,137
Investment income, net (Notes 3 and 4)	579	(33,840)	(33,261)
Net assets released from restriction	39,737	(39,737)	-
Total revenues, gains, and other support	866,619	128,105	994,724
EXPENSES			
Program services	851,320	-	851,320
Management and general	133,717	-	133,717
Fundraising	63,617	-	63,617
Total expenses	1,048,654	-	1,048,654
Change in net assets	(182,035)	128,105	(53,930)
NET ASSETS			
Beginning	4,553,681	403,338	4,957,019
Ending	\$ 4,371,646	\$ 531,443	\$ 4,903,089

The Notes to Financial Statements are an integral part of this statement.

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	Program Services	Management and General	Fundraising	Total
Payroll	\$ 392,555	\$ 60,792	\$ 30,406	\$ 483,753
Benefits	8,829	2,701	691	12,221
Payroll taxes	26,413	4,380	2,267	33,060
Printing and copying	16,645	1,958	979	19,582
Maintenance	47,524	2,527	506	50,557
Utilities	22,694	1,207	241	24,142
Insurance	12,104	1,424	712	14,240
Depreciation	213,042	6,728	4,485	224,255
Exhibits	2,656	-	-	2,656
Advertising	-	5,459	-	5,459
Summer camp and programs	22,279	-	-	22,279
Bank fees	91	16,864	1,375	18,330
Cost of goods sold	12,200	-	-	12,200
Supplies	11,836	658	658	13,152
Telephone	3,647	364	41	4,052
Training, meetings, and travel	6,245	632	140	7,017
Computer	11,511	3,837	3,837	19,185
Temporary help	534	-	-	534
Postage	2,293	127	127	2,547
Professional fees	909	14,248	-	15,157
Dues, licenses and permits	3,531	547	274	4,352
Visiting artist/mother goose	3,150	-	-	3,150
Subscriptions and memberships	1,220	1,220	-	2,440
In-kind	20,713	-	-	20,713
	<u>\$ 842,621</u>	<u>\$ 125,673</u>	<u>\$ 46,739</u>	<u>\$ 1,015,033</u>

The Notes to Financial Statements are an integral part of this statement.

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Payroll	\$ 369,161	\$ 61,354	\$ 45,123	\$ 475,638
Benefits	35,463	5,900	3,023	44,386
Payroll taxes	30,238	8,571	3,636	42,445
Printing and copying	9,109	1,072	536	10,717
Maintenance	45,363	2,412	483	48,258
Utilities	20,188	1,074	215	21,477
Insurance	15,096	1,776	888	17,760
Depreciation	221,723	7,002	4,668	233,393
Exhibits	1,685	-	-	1,685
Advertising	-	7,593	-	7,593
Summer camp and programs	17,746	-	-	17,746
Bank fees	110	20,269	1,652	22,031
Cost of goods sold	17,870	-	-	17,870
Supplies	9,251	514	514	10,279
Telephone	3,557	355	40	3,952
Training, meetings, and travel	8,255	834	186	9,275
Computer	5,953	1,985	1,984	9,922
Temporary help	391	-	-	391
Postage	4,157	231	231	4,619
Professional fees	765	11,987	-	12,752
Dues, licenses and permits	3,585	596	438	4,619
Visiting artist/mother goose	3,000	-	-	3,000
Subscriptions and memberships	193	192	-	385
In-kind	28,461	-	-	28,461
	<u>\$ 851,320</u>	<u>\$ 133,717</u>	<u>\$ 63,617</u>	<u>\$ 1,048,654</u>

The Notes to Financial Statements are an integral part of this statement.

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	\$ (68,556)	\$ (53,930)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	224,255	233,393
Loss on disposal of property and equipment	7,576	-
Unrealized (gain) loss on investments	(75,588)	43,323
Cash received from contributions restricted for long-term purposes	(118,786)	(202,026)
(Increase) decrease in assets:		
Contributions receivable	3,164	(49,188)
Inventory	(1,247)	1,815
Prepaid expenses	-	(9,982)
Cash value of life insurance	(1,789)	-
Increase in liabilities:		
Accounts payable and accrued expenses	(17,950)	24,078
Deferred member dues	6,463	7,494
Net cash used in operating activities	(42,458)	(5,023)
INVESTING ACTIVITIES		
Purchase of investments	(116,594)	(144,573)
Acquisition of property and equipment	(2,254)	(26,572)
Net cash used in investing activities	(118,848)	(171,145)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from contributions restricted for long-term purposes	118,786	202,026
Net cash provided by financing activities	118,786	202,026
Net increase (decrease) in cash and cash equivalents	(42,520)	25,858
CASH AND CASH EQUIVALENTS		
Beginning	200,078	174,220
Ending	\$ 157,558	\$ 200,078

The Notes to Financial Statements are an integral part of these statements.

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

Note 1. Nature of Entity and Significant Accounting Policies

The Shenandoah Valley Discovery Museum, Inc. (the Museum) was incorporated in 1993 as a non-stock, non-profit organization under the laws of the Commonwealth of Virginia. The mission of the Museum is to spark curiosity and inspire learning through exploration and creative play. The Museum operates as a charitable and educational organization and has approximately 600 members. The Museum's primary sources of funds are from contributions, donated services, admissions, educational program fees, and store sales.

Basis of financial statement presentation and accounting

The financial statements of the Museum have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with these principles 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.

The accompanying financial statements present information regarding the Museum's financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The two classes are differentiated based on the existence or absence of donor-imposed restrictions.

Net Assets without Donor Restrictions are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Net Assets with Donor Restrictions are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Museum pursuant to those stipulations. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs.

Cash and cash equivalents

The Museum considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Accounts in the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

Note 1. Nature of Entity and Significant Accounting Policies (Continued)

Investments

Investments in securities are reported at fair value based on readily determinable market values. Fair value is 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. Donated investments are recorded at fair value on the date of donation.

Cash value of life insurance

The Museum owns and is the beneficiary of a donor's life insurance policy. The policy is held at the policy's cash surrender value. The Museum will receive the policy proceeds upon the death of the insured donor.

Property and equipment

Property and equipment is stated at cost or at fair value at the date of gift, less accumulated depreciation. Expenditures for new construction, major renewals and replacements, and equipment exceeding \$1,000 are generally capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Exhibits and displays	7 years
Furniture and equipment	3-10 years
Building and improvements	39 years
Vehicles	5 years

Inventory

Inventory consists primarily of educational and promotional items and toys held for sale that are valued at the lower of cost or net realizable value on an average cost basis, with shipping and handling cost included in the cost of goods sold for inventoried items sold. Management determined that a reserve for obsolete inventory was unnecessary as of December 31, 2019 and 2018.

Deferred member dues

Deferred revenue consists principally of membership dues receipts received in advance of the applicable membership term.

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

Note 1. Nature of Entity and Significant Accounting Policies (Continued)

Revenue

In May 2014, The Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The new standard affects any entity that enters into contracts with customers for the transfer of goods or services. The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To achieve that core principle, an entity should apply the following steps: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligation in the contract, and (5) recognize revenue when, or as, the entity satisfies the performance obligation.

The Company adopted ASU 2014-09 and all amendments beginning in 2019. Consistent with the modified retrospective adoption method, prior reporting period results remain unchanged and reported in accordance with ASC 605. As it relates to the Museum's contracts to provide access and use of its facility, the guidance in ASC 606 was not materially different from the guidance in ASC 605. Therefore, adoption of the new standard resulted in no change to income or net assets or those revenue streams. Furthermore, there was no significant impact to revenues recognized, and no significant changes to the Museum's related business processes, systems, or internal control over financial reporting because of the new guidance.

The following table summarizes revenue by main source for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Contracts with customers		
Membership dues	\$ 89,950	\$ 80,639
Admissions & earned revenue	544,865	583,498
	<u>\$ 634,815</u>	<u>\$ 664,137</u>

The following is a description of principal activities from which the Museum generates its revenues.

Membership Dues

Membership dues consist of access to the Museum for the period of time specified in the membership agreement. Depending upon the level of membership purchased, dues can also include guest passes, and access to other similar museums and programs. The Museum considers the performance obligations created by memberships to be satisfied in similar pattern. Accordingly, all membership revenue is recognized over the length of the membership agreement.

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

Note 1. Nature of Entity and Significant Accounting Policies (Continued)

Revenue (continued)

Contributions

Contributions, including unconditional promises, are recognized as without donor restrictions or with donor restrictions, in the period the donor's commitment is received. All donor restricted contributions are reported as increases in donor restricted net assets depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Amounts due to be received or paid in more than one year are discounted to their net present value. Changes in discounts are recognized as contribution revenue or expense over the period of the pledge. All pledges are deemed collectible and therefore an allowance for doubtful pledges is not considered necessary. Contributions received with donor-imposed restrictions that are met in the same year as received are recorded as revenues of the net asset without donor restrictions class.

Admissions and Earned Revenue

Earned revenue other than memberships include admissions, sale of merchandise, educational programs, parties, and special events. The sale of goods or access to the Museum facilities results in the satisfaction of the Museum's performance obligation. Accordingly, the Museum recognizes revenue at the point of sale.

Economic Factors

Since the Museum generates its revenue from individuals out of their discretionary income, its revenue sources are directly linked to the local and regional economy. These factors could impact the amount, timing, and uncertainty of revenue and cash flows.

Functional allocation of expenses

The financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and benefits, maintenance, utilities, insurance, depreciation, bank fees, and telephone expenses are allocated according to estimated time spent on activities. Other expenses are directly attributable to a specific activity.

Income taxes

The Museum is exempt from income taxes under section §501(c)(3) of the *Internal Revenue Code* ("IRC"). The Museum has been classified as an organization that is not a private foundation. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

Note 1. Nature of Entity and Significant Accounting Policies (Continued)

Taxes assessed by governmental authorities

Taxes collected on behalf of governmental authorities on revenue producing transactions, such as sales taxes, are recorded as liabilities on the statement of financial position. These amounts are not included in sales and cost of goods sold on the statement of activities.

Advertising costs

Advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 2019 and 2018 were \$5,459 and \$7,593, respectively.

Subsequent events

Subsequent events were considered through April 24, 2020, the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, the Museum temporarily closed for a period of time in order to conform to recommendations by the Centers for Disease Control. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, the Museum expects the matter to negatively impact operations; however, the financial impact and duration cannot be estimated at this time.

Note 2. Contributions Receivable

Contributions receivable are expected to be collected in the following periods:

	<u>2019</u>	<u>2018</u>
One year or less	\$ 13,585	\$ 10,323
Between one and five years	<u>82,315</u>	<u>87,759</u>
	95,900	98,082
Less allowance for uncollectible pledges	-	-
Less present value discount (1.50% and 2.63% for 2019 and 2018 respectively)	<u>(1,350)</u>	<u>(2,157)</u>
	<u>\$ 94,550</u>	<u>\$ 95,925</u>

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 3. Investments and Fair Value

Generally accepted accounting principles establish a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. These inputs can be readily observable, market corroborated, or generally unobservable inputs. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories based on the inputs used in valuation:

Level 1: Quoted prices in active markets for identical assets or liabilities. The Museum considers all of its investments to be Level 1 aside from the Community Foundation of the Northern Shenandoah Valley (the “Foundation”) non-endowed agency fund.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data. In fiscal year 2017 the Museum’s Board of Directors set aside \$10,000 to create a capital reserve fund and was invested with the Foundation. As of December 31, 2019, the investment is valued at \$33,248 and is classified as Level 2 in the fair value hierarchy.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Investments consist of the following at December 31:

	2019	2018
Cash	\$ 15,547	\$ 8,761
Corporate bonds	246,837	-
Mutual funds	-	260,043
Exchange traded funds	364,805	179,918
	\$ 627,189	\$ 448,722

Investment return consists of the following:

	2019	2018
Unrealized gain (loss)	\$ 75,588	\$ (43,323)
Interest and dividends	14,351	11,744
Investment fees	(3,354)	(1,682)
	\$ 86,585	\$ (33,261)

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

Note 4. Endowment

The Museum's endowment consists of one fund established to further the advancement of the Museum. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, the Museum retains in perpetuity a) the original value of initial and subsequent gift amounts donated to the fund and b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA. Additionally, in accordance with SPMIFA, 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 assets as of December 31 are summarized as follows:

	2019	2018
Investments	\$ 627,189	\$ 448,722
Cash not yet transferred to endowment	24,000	-
Contributions receivable, net	89,295	95,925
	\$ 740,484	\$ 544,647

Endowment net asset classification by type of fund as of December 31, 2019 is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 727,280	\$ 727,280
Board-designated endowment funds	13,204	-	13,204
	\$ 13,204	\$ 727,280	\$ 740,484

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 4. Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 13,204	\$ 531,443	\$ 544,647
Investment return:			
Net unrealized gain	-	65,411	65,411
Interest and dividends	-	12,980	12,980
Contributions	-	117,446	117,446
Endowment net assets, end of year	<u>\$ 13,204</u>	<u>\$ 727,280</u>	<u>\$ 740,484</u>

Endowment net asset classification by type of fund as of December 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 531,443	\$ 531,443
Board-designated endowment funds	13,204	-	13,204
	<u>\$ 13,204</u>	<u>\$ 531,443</u>	<u>\$ 544,647</u>

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 4. Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 8,248	\$ 363,257	\$ 371,505
Investment return:			
Net unrealized gain	-	(45,005)	(45,005)
Interest and dividends	-	11,165	11,165
Contributions	-	202,026	202,026
Transfers to Endowment	4,956	-	4,956
Endowment net assets, end of year	\$ 13,204	\$ 531,443	\$ 544,647

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration (“underwater funds”). As of the years ended December 31, 2019 and 2018, no funds were underwater.

While safety of principal is a key objective of the endowment, the endowment investments should be positioned to maximize long-term growth of income and principal of endowment funds consistent with prudent levels of risk. As such, short-term trading strategies or high current income are not critical parts of the long-term plan. However, given the uncertainty associated with the financial markets, short-term goals have been established to evaluate investment performance. The Museum’s investment portfolio represents a well-diversified portfolio consisting of high-quality corporate bonds and exchange traded funds. As such, from time to time, a portion of the assets may be allocated specifically to short-term investments and segregated from the overall assets of the endowment. Investment returns are expected to preserve and enhance the real value of the endowment to provide adequate funds to sufficiently support designated Museum activities.

The Museum’s spending policy for endowment assets is set annually by the Board of Directors and shall not exceed a rate of 5% of the beginning principal balance of the fund.

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 5. Property and Equipment

Property and equipment consist of the following:

	2019	2018
Building and improvements	\$ 4,176,793	\$ 4,176,793
Museum exhibits and displays	751,161	869,072
Land	231,731	231,731
Furniture and equipment	83,965	126,448
Vehicles	20,000	20,000
	5,263,650	5,424,044
Less: Accumulated depreciation	(1,294,902)	(1,225,719)
Net property and equipment	\$ 3,968,748	\$ 4,198,325

Note 6. Employee Benefits

Retirement benefits are provided for eligible employees through a Simplified Employee Pension (SEP) Plan. Contributions amounted to \$9,188 and \$13,250 for the years ended December 31, 2019 and 2018, respectively.

Note 7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	2019	2018
Restrictions that are perpetual in nature		
Endowment Corpus:		
Investments	\$ 533,851	\$ 433,775
Contributions receivable	89,295	95,925
Cash	24,000	-
Restrictions not perpetual in nature		
Accumulated earnings on endowment	80,134	1,743
Other time restrictions	5,255	-
	\$ 732,535	\$ 531,443

As further described in Note 3, the Board of Directors has also designated certain funds to be set aside for investment purposes as a Capital Reserve Fund. These internally designated funds are held with the Community Foundation of the Northern Shenandoah Valley and totaled \$33,248 and \$19,533 at December 31, 2019 and 2018, respectively.

(Continued)

SHENANDOAH VALLEY DISCOVERY MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Note 8. Liquidity and Availability

The following table reflects the Museum's financial assets as of December 31, 2019, reduced for amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action. The Museum considers general expenditures to be all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Financial assets:	
Cash and cash equivalents	\$ 157,558
Contributions receivable, net	94,550
Investments	660,437
Total financial assets	<u>912,545</u>
Less those unavailable for general expenditure within one year:	
Contributions expected to be received after one year	(80,965)
Donor-restricted Endowment	(613,985)
Unrestricted funds transferred to Endowment	(13,204)
Board designated capital reserve fund	(33,248)
Total unavailable assets	<u>(741,402)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 171,142</u>

Note 9. Subsequent Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires lessees to recognize all leases (other than leases with a term of twelve months or less) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of current guidance, including identifying a lease and lease classification criteria, the lessor accounting model, and guidance on separating components of a contract and consideration in the contract. The amendments in ASU 2016-02 will be effective for the Museum on January 1, 2021 and will require modified retrospective application as of the beginning of the earliest period presented in the financial statements. Early application is permitted. Management has not determined the effects these new FASB Statements may have on prospective financial statements.