

THE MUSEUM OF DANISH AMERICA

Financial Statements
Year Ended August 31, 2020

OLSEN, MUHLBAUER & CO., L.L.P.
Certified Public Accountants
CARROLL, IOWA

THE MUSEUM OF DANISH AMERICA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Danish Immigrant Museum
dba The Museum of Danish America
Elk Horn, Iowa

We have audited the accompanying financial statements of The Museum of Danish America (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of August 31, 2020, and the related statements of revenues, expenses and changes in net assets – modified cash basis, and functional expenses – modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of The Museum of Danish America as of August 31, 2020, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Emphasis of a Matter - Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited The Museum of Danish America's August 31, 2019, financial statements, and our report dated November 26, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Olsen, Muhlbauer & Co., L.L.P.

OLSEN, MUHLBAUER & CO., L.L.P.
Certified Public Accountants

Carroll, Iowa
October 28, 2020

THE MUSEUM OF DANISH AMERICA

Statement of Assets, Liabilities, and Net Assets -
Modified Cash Basis
August 31, 2020 with Summarized Totals as of August 31, 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and Cash Equivalents	963,358	1,176,458
Design Shop Inventory	56,528	57,720
Exhibit Catalogue and Promotional Inventory	885	27,824
Property and Equipment (Net)	4,521,051	4,599,445
Investments	5,220,675	4,701,763
Collections (Note 1)	<u>0</u>	<u>0</u>
<u>Total Assets</u>	<u>10,762,497</u>	<u>10,563,210</u>
Liabilities		
Accrued Payroll Taxes and Benefits	0	2,552
Note Payable	124,100	0
Line of Credit	<u>0</u>	<u>0</u>
<u>Total Liabilities</u>	<u>124,100</u>	<u>2,552</u>
Net Assets		
Without Donor Restrictions	6,601,331	6,887,338
With Donor Restrictions	<u>4,037,066</u>	<u>3,673,320</u>
<u>Total Net Assets</u>	<u>10,638,397</u>	<u>10,560,658</u>
<u>Total Liabilities and Net Assets</u>	<u>10,762,497</u>	<u>10,563,210</u>

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

THE MUSEUM OF DANISH AMERICA

Statement of Revenues, Expenses and Changes in Net Assets -
Modified Cash Basis
For Year Ended August 31, 2020 with Summarized Totals for 2019

	Without Donor Restrictions	With Donor Restrictions	Total	August 31, 2019
Revenues, Gains and Other Support:				
Contributions	670,538	171,160	841,698	1,530,447
Admissions	6,230	0	6,230	15,780
Design Store Gross Profit (Note 7)	47,248	0	47,248	59,149
Investment Income (Net)	135,586	365,848	501,434	34,947
Loss on Disposal of Property & Equipment	(1,475)	0	(1,475)	(2,740)
Grants	75,500	0	75,500	119,676
Miscellaneous Income	31,325	0	31,325	38,367
Net Assets Released from Restrictions:				
Appropriations of Donor Endowments	97,685	(97,685)	0	0
Restrictions Satisfied by Programs	75,577	(75,577)	0	0
<u>Total Revenues, Gains, and Other Support</u>	<u>1,138,214</u>	<u>363,746</u>	<u>1,501,960</u>	<u>1,795,626</u>
Expenses				
Program Services				
Curatorial	541,669	0	541,669	505,767
Genealogy	122,272	0	122,272	118,350
Public Outreach	104,817	0	104,817	129,882
Design Store	132,723	0	132,723	140,080
Bedstemor's House	9,567	0	9,567	9,219
	<u>911,048</u>	<u>0</u>	<u>911,048</u>	<u>903,298</u>
Supporting Services				
Management and General	368,796	0	368,796	361,501
Fund Raising	144,377	0	144,377	115,860
	<u>513,173</u>	<u>0</u>	<u>513,173</u>	<u>477,361</u>
<u>Total Expenses</u>	<u>1,424,221</u>	<u>0</u>	<u>1,424,221</u>	<u>1,380,659</u>
<u>Change in Net Assets</u>	<u>(286,007)</u>	<u>363,746</u>	<u>77,739</u>	<u>414,967</u>
Net Assets, Beginning of Year	<u>6,887,338</u>	<u>3,673,320</u>	<u>10,560,658</u>	<u>10,145,691</u>
<u>Net Assets, End of Year</u>	<u><u>6,601,331</u></u>	<u><u>4,037,066</u></u>	<u><u>10,638,397</u></u>	<u><u>10,560,658</u></u>

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

THE MUSEUM OF DANISH AMERICA

Statement of Functional Expenses -
Modified Cash Basis

For Year Ended August 31, 2020 with Summarized Totals for 2019

	Program Services					Supporting Services		Total	August 31, 2019 Total
	Curatorial	Genealogy	Public Outreach	Design Store	Bedstemor's House	Management and General	Fund Raising		
Salaries	166,054	66,741	61,597	52,027	5,167	148,403	87,083	587,072	553,422
Benefits and Taxes	29,440	11,833	10,920	9,224	393	26,833	15,439	104,082	116,233
Total Compensation	195,494	78,574	72,517	61,251	5,560	175,236	102,522	691,154	
2019 - Memo Only	183,980	66,702	104,142	71,150	5,500	148,084	59,142		638,700
Advertising	210	0	0	0	0	19,666	48	19,924	18,847
Bank Charges	0	0	0	449	0	7,010	0	7,459	10,313
Contract Labor/Outside Services	42,064	0	0	640	0	225	1,524	44,453	9,409
Depreciation	145,775	9,435	8,591	25,905	747	35,203	8,591	234,247	206,297
Donations	0	0	0	0	0	1,287	0	1,287	1,882
Equipment Expenses	328	1,061	0	0	0	5,362	0	6,751	14,327
Grounds Care	15,314	0	0	0	615	19,505	0	35,434	43,876
Insurance	6,972	2,176	3,265	2,721	544	6,529	2,176	24,383	25,552
Interest	0	0	0	0	0	0	0	0	494
Interns	0	0	0	0	0	0	0	0	6,000
Maintenance	33,585	471	3,018	9,055	943	12,073	3,018	62,163	35,872
Meetings	164	0	0	0	0	10,284	0	10,448	22,966
Memberships	2,440	150	0	0	0	825	540	3,955	3,961
Office & Computer	18,517	22,148	1,838	4,486	0	9,962	2,226	59,177	59,797
Other	6,037	819	344	806	29	5,401	2,542	15,978	20,653
Postage and Freight	5,070	130	0	7,612	0	4,561	4,239	21,612	31,485
Printing	128	402	0	12,223	0	17,473	10,310	40,536	55,407
Professional Fees	1,480	1,200	500	0	0	15,373	0	18,553	18,999
Reception and Events	0	0	9,235	0	0	300	797	10,332	42,242
Rent	7,200	0	0	0	0	0	0	7,200	7,800
Supplies	32,010	1,381	0	524	0	8,119	263	42,297	17,645
Travel	5,476	0	3,797	336	0	4,396	713	14,718	32,307
Telephone	2,235	2,048	0	1,578	0	3,156	3,156	12,173	13,070
Utilities	21,170	2,277	1,712	5,137	1,129	6,850	1,712	39,987	42,758
Total	541,669	122,272	104,817	132,723	9,567	368,796	144,377	1,424,221	
2019 - Memo Only	505,767	118,350	129,882	140,080	9,219	361,501	115,860		1,380,659

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

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements August 31, 2020

Note 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

The Danish Immigrant Museum (the Museum), located in Elk Horn, Iowa, was formed in 1983 to exhibit materials and to provide information to the public regarding the impact and contributions of immigrants from Denmark to the United States. Artifacts and traditions are collected, preserved, studied and interpreted in order to preserve this rich heritage. During the fiscal year ended August 31, 2014, the Danish Immigrant Museum formally adopted a fictitious name, The Museum of Danish America, in order to embrace all aspects of Danish American culture and influence rather than focusing only on immigrants.

The Museum's five program services are:

Curatorial – The Museum of Danish America celebrates Danish roots and American dreams through its curatorial activities. The department maintains a collection of approximately 30,000 artifacts, many of which are available on the Museum's website through the "View Our Collection" extension.

Genealogy – The Genealogy Center collects print, microform and digital materials on Danish immigrants, Danish Americans, their communities and organizations, and provides information on relevant genealogical resources as well as research and translation services to the public in-house and long distance. In addition, a digital library provides the ability to browse collections and titles online.

Public Outreach – Public outreach activities bring the Museum's mission to its national audience and membership by engaging constituents at public festivals, lectures and presentations, workshops, and receptions across the country.

Design Store – The Design Store displays items reflecting the best in Danish design and books about Denmark and Danish-American relations.

Bedstemor's House – Maintenance, tours and promotion of a 19th century historical house.

Significant Accounting Policies

Basis of Accounting – The financial statements of the Museum have been prepared on the modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis of accounting reports transactions on a cash basis modified to reflect certain accrual basis accounting adjustments such as capitalizing fixed assets and recording annual depreciation along with recording debt owed to banks and other liabilities such as payroll tax and benefit withholding. Revenue is recognized when received and does not account for promises to give. In addition, expenses incurred but unpaid at August 31, 2020, are not reflected in the accompanying financial statements.

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements August 31, 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Estimates – The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the period and as of the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents – The Museum considers all unrestricted short-term investments with an original maturity of three months or less to be cash equivalents.

Inventory – Inventory, consisting of design store merchandise and exhibit catalogues, is stated at the lower of cost or market determined on a first-in, first-out basis by the Museum's personnel.

Property and Equipment – Purchased property and equipment with a cost of \$2,000 or more and a useful life of more than one year is capitalized at cost. Donated property and equipment is recorded at fair value on the date of receipt. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Currently, the Museum has no policy implying time restrictions on donated property. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is provided on the straight-line method over a five to fifteen-year period for furniture and equipment, fifteen to fifty years for buildings and permanent exhibits, and fifteen years for improvements.

Property and equipment is reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. An impairment loss of \$1,475 was recognized in the financial statements in the current period for an exhibit painting that was retired during the current fiscal year.

Investments – Investments in marketable securities are reported at their fair values in the Statement of Assets, Liabilities, and Net Assets - Modified Cash Basis. Unrealized gains and losses are included in the change in net assets. Investment income on investments restricted by donors is reported as an increase in net assets with donor restrictions until the Board appropriates the usage at which time it's reclassified to net assets without donor restrictions.

Collections – The Museum's collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the Statement of Assets, Liabilities, and Net Assets - Modified Cash Basis. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year acquired.

The Museum's collections consist of historically significant artifacts and art held for educational, research, and curatorial purposes. The items are cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales and deaccessions be used to purchase and acquire other collection items.

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements August 31, 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Collections (Continued)

During the fiscal year ended August 31, 2020, some collection items were deaccessioned due to the changing nature of the collections and the reduction of duplicates. The fair value of these deaccessions is indeterminable due to their unique and historical nature but is not expected to be material.

Contributions and Net Assets – Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

Contributions are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions.

Contributions of cash to acquire or construct long-lived assets (i.e. property and equipment) are reported as net assets with donor restrictions upon receipt. When the long-lived asset is placed in service, the contribution is reclassified from net assets with donor restrictions to net assets without donor restrictions.

In-kind Donations – The museum receives a significant amount of support in the form of goods and services from donors and volunteers in the Museum's operations, fund raising, admissions desk, design store, and museum tours. Services that do not require specialized knowledge are not required to be reported on financial statements prepared on the modified cash basis of accounting. Accordingly, these financial statements do not reflect these contributions. If these contributions were recorded, revenues would increase by the fair value of the contributions.

Expense Recognition and Cost Allocation – The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Allocated expenses include Compensation and Benefits and Taxes, which are allocated on the basis of time and effort, Depreciation, Insurance, Maintenance, and Utilities which are allocated on a square footage basis, and Computer expenses which are recorded based on computer counts in each program or supporting service.

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the museum.

Fundraising costs are expensed as incurred, even though they may result in future contributions.

Additionally, advertising costs are expensed as incurred.

The Museum has elected to use the direct expensing method in accounting for planned major maintenance activities.

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements August 31, 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Tax status – The Museum is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Museum is also a public charity under the IRC Sections 509(a) and 170(b)(1)(A)(vi). This allows for donations to the Museum to be deductible as charitable contributions.

Tax years ending on and prior to August 31, 2017, are considered closed years. The Museum accounts for uncertainties in accounting for income taxes using the guidance included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes. The Museum recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. At August 31, 2020, the Museum had no uncertain tax positions nor interest or penalties related to income taxes.

Note 2 – Liquidity and Availability of Financial Assets

The following information presents the Museum's financial assets as of August 31, 2020, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions. Funds that are available for use within one year for general purposes include contributions with donor restrictions for projects expected to be completed within one year.

Financial Assets at year-end	
(Cash and Cash Equivalents and Investments)	6,184,033
Less those unavailable for general expenditures within one year, due to:	
Restricted to maintain as DIM Endowment	(3,881,076)
Restricted to maintain as Holger Danske Endowment	(1,191,160)
Restricted for DBIA Artifacts	(28,000)
Restricted to long-term projects	(103,442)
<u>Financial assets available to meet cash needs for general expenditures within one year</u>	<u>980,355</u>

As part of the Museum's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically money market funds. In addition to the above amounts, the Museum has a line of credit from Shelby County State Bank for \$200,000 that may be drawn upon to meet operating cash flow needs.

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements
August 31, 2020

Note 3 – Property and Equipment

Property and equipment consists of the following:

Land and improvements	962,137
Museum building	5,447,182
FHGC building	130,000
FHGC building improvements	26,901
Exhibit furniture	435,933
Design store furnishings and equipment	17,308
Office furniture and equipment	184,016
FHGC furniture and equipment	53,327
Historical house	65,410
Vehicles	30,673
Intangibles - Website and brand	<u>44,214</u>
	7,397,101
Less: Accumulated depreciation	(2,876,050)
<u>Total</u>	<u>4,521,051</u>

Note 4 – Investments and Fair Value of Financial Instruments

The Museum holds investments primarily for its endowment funds, but also, for investments of excess operating cash and for donor-restricted projects. The fair value measurements and levels within the fair value hierarchy of those measurements of those measurements for the assets reported at fair value on a recurring basis at August 31, 2020, are as follows:

	<u>Cost</u>	<u>Fair Value (Level 1)</u>	<u>Unrealized Appreciation (Depreciation)</u>
Funds without Donor Restrictions			
Certificates of Deposit	<u>30,519</u>	<u>30,519</u>	<u>0</u>
<u>Investments without Donor Restrictions</u>	<u>30,519</u>	<u>30,519</u>	<u>0</u>

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements
August 31, 2020

Note 4 – Investments and Fair Value of Financial Instruments (Continued)

	<u>Cost</u>	<u>Fair Value (Level 1)</u>	<u>Unrealized Appreciation (Depreciation)</u>
Funds with Donor Restrictions			
Long-term Projects			
Cash & Money Market Accounts	2,907	2,907	0
Fixed Income Securities	18,052	19,011	959
Pooled Equity Funds	<u>72,538</u>	<u>96,003</u>	<u>23,465</u>
	<u>93,497</u>	<u>117,921</u>	<u>24,424</u>
Holger Danske Endowment Fund			
Cash & Money Market Funds	47,085	47,085	0
Fixed Income Securities	177,874	189,105	11,231
Pooled Equity Funds	<u>705,616</u>	<u>954,969</u>	<u>249,353</u>
	<u>930,575</u>	<u>1,191,159</u>	<u>260,584</u>
DIM Endowment Fund			
Cash & Money Market Funds	162,915	162,915	0
Fixed Income Securities	901,235	944,990	43,755
Pooled Equity Funds	<u>2,162,139</u>	<u>2,773,171</u>	<u>611,032</u>
	<u>3,226,289</u>	<u>3,881,076</u>	<u>654,787</u>
<u>Investments with Donor Restrictions</u>	<u>4,250,361</u>	<u>5,190,156</u>	<u>939,795</u>
<u>Total Investments</u>	<u>4,280,880</u>	<u>5,220,675</u>	<u>939,795</u>

The Museum's Level 1 investments are actively traded and are reported at fair value on recurring basis determined by reference to quoted market prices.

Note 5 – Debt

The Museum holds a \$200,000 line of credit with Shelby County State Bank which matures March 1, 2021. At August 31, 2020, no funds were advanced against this credit line which bears interest at a variable rate.

On April 16, 2020, the Museum was approved for a Payroll Protection Program (PPP) loan through the US Small Business Administration (SBA) and Shelby County State Bank in the amount of \$124,100. If used for qualifying expenses per the terms of the program, the principal of this loan could be forgiven. The original terms of the loan stated that any unforgiven amount was to be repaid beginning October 16, 2020, in 18 monthly installment payments at an interest rate of 1% per year. The SBA has since extended the deferral period for loan payments under this program to either (1) the date that the SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, ten months after the end of the loan forgiveness covered period. As of August 31, 2020, the Museum has applied for complete forgiveness of this loan but has not yet received official word from the lender or SBA of its forgiveness.

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements August 31, 2020

Note 6 – Net Assets

Net Assets without Donor Restrictions includes \$1,227,820 designated by the Board for the following at August 31, 2020:

Holger Danske Endowment	105,970
DIM Endowment	<u>1,121,850</u>
<u>Total Board Designated Net assets without Donor Restrictions</u>	<u>1,227,820</u>

Net Assets with Donor Restrictions as of August 31, 2020, consist of funds with the following purpose restrictions:

Special projects and programs:	
Internship Programs	50,335
Schultz/Nielsen Project	40,000
FHGC Programs/Projects	25,659
Curatorial Programs/Projects	25,792
Other Programs/Projects	22,865
DBIA Artifact Maintenance	28,000
Holger Danske Endowment	1,085,189
DIM Endowment	<u>2,759,226</u>
<u>Total Net Assets with Donor Restrictions</u>	<u>4,037,066</u>

Endowment Funds – The Museum’s endowments were established to support the Museum's mission by providing a reliable income stream. Contributions to the endowment funds are subject to donor restrictions that stipulate the original principal of the gift is to be held and invested by the Museum indefinitely, and income from the investments are to be expended to support Museum operations. In addition, the Museum's Board of Directors has designated funds for the endowments.

The Museum is subject to the Iowa Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions until the Board appropriates amounts for expenditure. The Board of Trustees of the Museum has interpreted UPMIFA as requiring maintenance of only the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary.

The Museum would consider the fund to be underwater if the fair value is less than the sum of (1) the original value of the gifts donated to the fund and (2) any accumulations that are required to be maintained in perpetuity in accordance with the donor gift instrument. From time to time, due to adverse market conditions, the fair value of assets associated with donor restricted endowment funds may fall below the level that the donor or relevant law requires the Museum to retain as a fund of perpetual duration. As of August 31, 2020, the Holger Danske Endowment has a deficiency of this nature amounting to \$219,971 reported in net assets with donor restrictions. This deficiency resulted from unfavorable market fluctuations that occurred after the investment of new contributions and appropriations that were deemed prudent in prior years. The Museum interpreted UPMIFA to permit spending from underwater funds with prudent measures required under the law.

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements August 31, 2020

Note 6 – Net Assets (Continued)

The Holger Danske Endowment spending and investment policies adopted by the Board of Directors attempt to provide a predictable stream of funding to the Museum while seeking to maintain the purchasing power of the endowment assets. The Museum typically appropriates for distribution at the beginning of each fiscal year at least 50% of the endowment fund's investment income from the previous fiscal year. During the year ended August 31, 2020, the Museum did not take this appropriation in order to reduce the fund's underwater status.

The DIM Endowment spending and investment policies adopted by the Board of Directors attempt to achieve a reasonable and adequate rate of growth while not incurring significant risk and produce reasonable income. The Museum's objective is to provide growth exceeding inflation. The investment policy establishes an achievable return through use of a moderate portfolio approach. At the June, 2019, Board meeting, the appropriations policy for the DIM Endowment was modified for fiscal years ending August 31, 2020, and thereafter. The modified policy permits the Board to appropriate a discretionary percentage each year of the average market values of the fund from the last three fiscal year ends. At the October, 2019, Board meeting, the Board authorized the Director to withdraw up to five percent of the three-year historical average value in quarterly installments.

Endowment assets are invested in cash and money market accounts, fixed income securities, and pooled equity funds. Changes in endowment investments for the year ended August 31, 2020, are:

	<u>Net Assets With Donor Restrictions</u>	<u>Net Assets without Donor Restrictions</u>	<u>Total</u>
Endowment Investments –			
Beginning of Year	3,477,018	1,123,707	4,600,725
Contributions	127,235	27,735	154,970
Investment Income (Net)	365,847	117,093	482,940
Amounts Appropriated for Expenditure	(97,685)	(40,715)	(138,400)
Endowment Investments –			
End of Year	<u>3,872,415</u>	<u>1,227,820</u>	<u>5,100,235</u>

Note 7 – Design Store

Design Store revenues are reported net of discounts and returns in the Statement of Revenues, Expenses and Changes in Net Assets - Modified Cash Basis. Gross profit information is as follows:

Gross Sales	90,771
Discounts	(6,070)
Net Sales	84,701
Cost of Goods Sold	(37,453)
<u>Gross Profit</u>	<u>47,248</u>

Shipping and handling costs on both incoming and outgoing orders are included on the Statement of Functional Expenses in the Design Store's postage and freight expense.

THE MUSEUM OF DANISH AMERICA

Notes to Financial Statements August 31, 2020

Note 8 – Leases

The Museum leases storage units under automatically renewable month-to-month leases. The Museum also leases office equipment and intern housing under non-cancelable leases expiring in the fiscal years ending August 31, 2022 and 2023, respectively. Rental expense amounted to approximately \$17,468 for the year ended August 31, 2020 and is reported on the Statement of Functional Expenses as Rent, Equipment Expenses and Other Expenses. The approximate minimum rental commitment under non-cancelable operating leases is as follows as of August 31:

2021	14,468
2022	14,499
2023	4,000
Thereafter	-0-

Note 9 – Concentrations of Credit Risk

At August 31, 2020, funds amounting to \$112,378 were uninsured because they were held in financial institutions and are in excess of the \$250,000 Federal Deposit Insurance Corporation limits. The Museum's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Museum's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Despite this possibility, management believes that its credit risk is not significant.

Note 10 – Related Party Transactions

During the year ended August 31, 2020, the Museum received contributions of \$68,340 from board members and staff.

Note 11 – Subsequent Events

The Museum has considered subsequent events through October 28, 2020, which is the date the financial statements were available to be issued.

In March 2020, the World Health Organization categorized Coronavirus Disease (COVID-19) as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The COVID-19 pandemic has led to volatility in financial markets as well as forced business shutdowns. The potential economic impact brought by, and the duration of, COVID-19 is difficult to assess or predict and will depend on future developments that are highly uncertain and cannot be predicted. The Museum has applied for and been granted a PPP loan as well as several grants intended to offset some of the negative financial impacts of the pandemic, but the effect on the Museum in the near and long term is indeterminable.

In October 2020, the Museum swept \$46,786 of earnings from the DIM endowment account and \$1,400 of earnings from the FNB designated account. Due to current market conditions, the Museum's investments have lost 2 - 3% of their August 31, 2020, market value. Management is aware of the market and is monitoring the returns and will take action to limit future losses if deemed necessary.