

JAMES A. MICHENER ART MUSEUM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

JAMES A. MICHENER ART MUSEUM

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
James A. Michener Art Museum
Doylestown, Pennsylvania**

We have audited the accompanying financial statements of the James A. Michener Art Museum (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of James A. Michener Art Museum as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the James A. Michener Art Museum's 2012 financial statements, and our report dated June 17, 2013 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 December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD, LLP.

**Philadelphia, Pennsylvania
June 2, 2014**

JAMES A. MICHENER ART MUSEUM

STATEMENT OF FINANCIAL POSITION

December 31, 2013 with comparative totals for 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 663,359	\$ 440,104
Contributions receivable		
Facilities	2,713,600	2,743,700
Capital campaign	69,151	1,038,692
Other	222,156	219,611
Inventory - Museum gift shop	94,691	82,908
Prepaid expenses and other	70,316	55,178
Investments	16,497,891	15,139,157
Property and equipment, net	13,079,840	13,771,753
Beneficial interest in perpetual trust	1,059,754	1,001,822
Beneficial interest in remainder trust	160,612	139,618
Cash value of life insurance policies	37,795	36,945
Collections	-	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 34,669,165</u>	<u>\$ 34,669,488</u>
LIABILITIES		
Line of credit	\$ -	\$ 1,470,000
Accounts payable and accrued expenses	170,905	124,728
Advances and deferred revenue	98,987	11,000
Charitable gift annuity obligations	61,066	72,768
Mortgage notes payable	434,480	385,331
	<u> </u>	<u> </u>
Total liabilities	<u>765,438</u>	<u>2,063,827</u>
NET ASSETS		
Unrestricted		
Operating	-	(487,756)
Board designated		
Endowment/Project	9,420,642	8,740,647
Replacement reserve	570,300	641,800
Plant	3,319,372	3,504,314
	<u> </u>	<u> </u>
	13,310,314	12,399,005
Temporarily restricted	12,468,065	12,858,310
Permanently restricted	8,125,348	7,348,346
	<u> </u>	<u> </u>
Total net assets	<u>33,903,727</u>	<u>32,605,661</u>
Total liabilities and net assets	<u>\$ 34,669,165</u>	<u>\$ 34,669,488</u>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

STATEMENT OF ACTIVITIES

Year ended December 31, 2013 with comparative totals for 2012

	Unrestricted				Total
	Operating	Board Designated			
		Endowment/ Project	Replacement Reserve	Plant	
SUPPORT					
Grants and contributions	\$ 993,857	\$ -	\$ -	\$ -	\$ 993,857
In-kind contribution - facilities	-	-	-	-	-
Total support	<u>993,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>993,857</u>
REVENUE					
Admission fees	578,189	-	-	-	578,189
Memberships	346,878	-	-	-	346,878
Museum shop	254,250	-	-	-	254,250
Program fees	240,482	-	-	-	240,482
Miscellaneous income	274,285	-	-	-	274,285
Total revenue	<u>1,694,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,694,084</u>
ENDOWMENT SPENDING POLICY	<u>976,680</u>	<u>(553,240)</u>	<u>-</u>	<u>-</u>	<u>423,440</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>913,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>913,984</u>
Total support, revenue and net assets released	<u>4,578,605</u>	<u>(553,240)</u>	<u>-</u>	<u>-</u>	<u>4,025,365</u>
EXPENSES					
Museum services	3,551,613	-	-	-	3,551,613
Supporting services					
General and administrative	556,091	-	-	-	556,091
Fund-raising	632,242	-	-	-	632,242
Total expenses	<u>4,739,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,739,946</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	<u>(161,341)</u>	<u>(553,240)</u>	<u>-</u>	<u>-</u>	<u>(714,581)</u>
OTHER CHANGES					
Change in net assets not capitalized					
Collection items purchased	(5,050)	-	-	-	(5,050)
Loss on disposal of property and equipment	-	-	-	-	-
Investment income	50,872	1,580,068	-	-	1,630,940
Change in value of split interest agreements	-	-	-	-	-
Transfers:					
Property and equipment additions	(52,526)	-	-	52,526	-
Principal payments on mortgage notes payable	(39,504)	-	-	39,504	-
Depreciation	276,972	-	-	(276,972)	-
Other	418,333	(346,833)	(71,500)	-	-
Total other changes	<u>649,097</u>	<u>1,233,235</u>	<u>(71,500)</u>	<u>(184,942)</u>	<u>1,625,890</u>
CHANGE IN NET ASSETS	<u>487,756</u>	<u>679,995</u>	<u>(71,500)</u>	<u>(184,942)</u>	<u>911,309</u>
NET ASSETS					
Beginning of year	<u>(487,756)</u>	<u>8,740,647</u>	<u>641,800</u>	<u>3,504,314</u>	<u>12,399,005</u>
End of year	<u>\$ -</u>	<u>\$9,420,642</u>	<u>\$570,300</u>	<u>\$3,319,372</u>	<u>\$13,310,314</u>

See accompanying notes

<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
		<u>2013</u>	<u>2012</u>
\$ 312,295	\$ 53,303	\$ 1,359,455	\$ 734,070
197,900	-	197,900	199,900
<u>510,195</u>	<u>53,303</u>	<u>1,557,355</u>	<u>933,970</u>
-	-	578,189	452,275
-	-	346,878	341,157
-	-	254,250	271,306
-	-	240,482	181,289
-	-	<u>274,285</u>	<u>246,797</u>
-	-	<u>1,694,084</u>	<u>1,492,824</u>
-	(423,440)	-	-
<u>(913,984)</u>	-	-	-
<u>(403,789)</u>	<u>(370,137)</u>	<u>3,251,439</u>	<u>2,426,794</u>
-	-	3,551,613	3,394,894
-	-	556,091	423,481
-	-	<u>632,242</u>	<u>475,743</u>
-	-	<u>4,739,946</u>	<u>4,294,118</u>
<u>(403,789)</u>	<u>(370,137)</u>	<u>(1,488,507)</u>	<u>(1,867,324)</u>
-	-	(5,050)	(6,066)
-	-	-	(12,391)
-	1,080,777	2,711,717	1,736,982
13,544	66,362	79,906	42,137
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>13,544</u>	<u>1,147,139</u>	<u>2,786,573</u>	<u>1,760,662</u>
(390,245)	777,002	1,298,066	(106,662)
<u>12,858,310</u>	<u>7,348,346</u>	<u>32,605,661</u>	<u>32,712,323</u>
<u>\$12,468,065</u>	<u>\$8,125,348</u>	<u>\$33,903,727</u>	<u>\$32,605,661</u>

JAMES A. MICHENER ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2013 with comparative totals for 2012

		<u>Supporting Services</u>		<u>Total Expenses</u>	
	<u>Museum Services</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>2013</u>	<u>2012</u>
Salaries and fringe benefits	\$ 1,164,808	\$226,566	\$232,271	\$ 1,623,645	\$ 1,504,463
Advertising	90,487	53	-	90,540	150,865
Depreciation	534,063	103,880	106,496	744,439	675,971
General operating expenses	85,657	19,931	34,414	140,002	187,584
Insurance	47,340	9,200	317	56,857	101,463
Interest	5,126	15,939	-	21,065	41,636
Museum store purchases	125,823	-	-	125,823	127,337
Postage	19,274	3,205	6,146	28,625	25,124
Printing	72,279	-	19,770	92,049	69,673
Professional services	399,796	37,293	149,088	586,177	478,650
Property maintenance	149,694	40,803	31,955	222,452	170,298
Real estate taxes	-	16,320	-	16,320	16,166
Rent-in-kind	163,568	31,815	32,617	228,000	221,000
Temporary exhibition expenses	559,749	-	-	559,749	306,422
Telecommunications	8,601	1,611	1,653	11,865	11,218
Utilities	84,146	23,743	16,779	124,668	137,715
Miscellaneous	41,202	25,732	736	67,670	68,533
	<u>\$3,551,613</u>	<u>\$556,091</u>	<u>\$632,242</u>	<u>\$4,739,946</u>	<u>\$4,294,118</u>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

STATEMENT OF CASH FLOWS

Year ended December 31, 2013 with comparative totals for 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 1,298,066	\$ (106,662)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Net realized and unrealized gain on investments	(2,259,275)	(1,254,170)
Depreciation	744,439	675,971
Loss on disposal of property and equipment	-	12,391
Collection items purchased	5,050	6,066
Change in value of split interest agreements	(79,906)	(53,080)
(Increase) decrease in		
Contributions receivable	997,096	2,407,490
Inventory - Museum gift shop	(11,783)	17,843
Prepaid expenses and other	(15,138)	81,420
Increase (decrease) in		
Accounts payable and accrued expenses	46,177	(343,622)
Advances and deferred revenue	87,987	10,538
Charitable gift annuity obligations	(11,572)	(628)
Net cash provided by operating activities	<u>801,141</u>	<u>1,453,557</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,561,218)	(4,314,802)
Proceeds from sale of investments	4,461,759	4,908,051
Acquisition of property and equipment	(52,526)	(1,135,798)
Collection items purchased	(5,050)	(6,066)
Net cash provided by (used for) investing activities	<u>842,965</u>	<u>(548,615)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on credit line	(1,470,000)	(1,050,000)
Proceeds from (repayment of) mortgage notes payable	49,149	(43,522)
Net cash used for financing activities	<u>(1,420,851)</u>	<u>(1,093,522)</u>
Net increase (decrease) in cash	223,255	(188,580)
CASH		
Beginning of year	<u>440,104</u>	<u>628,684</u>
End of year	<u>\$ 663,359</u>	<u>\$ 440,104</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 21,065</u>	<u>\$ 41,636</u>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

(1) NATURE OF OPERATIONS

The James A. Michener Art Museum ("**Museum**") is a nonprofit organization located in Doylestown, Pennsylvania. The Museum's primary objectives are to collect, preserve, interpret and exhibit American art and to educate the community about the visual arts through a diverse program of activities which seeks to develop a lifelong involvement with the arts.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

The Museum reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets

Net assets which are not subject to donor-imposed restrictions. The Museum has four classifications of unrestricted net assets. Operating net assets are net assets that are available for the general operations of the Museum. Endowment/Project unrestricted net assets have been restricted by the Board of Directors to function as an endowment or for specific projects. Replacement Reserve unrestricted net assets have been restricted by the Board of Directors for future repairs and/or replacement of property and equipment. Plant unrestricted net assets represent the Museum's unrestricted property and equipment less any related debt.

Temporarily restricted net assets

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the Museum and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "**net assets released from restrictions.**"

Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Museum.

Summarized Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

Fair Value Measurements of Assets and Liabilities

Generally accepted accounting principles ("**GAAP**") define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Museum. Unobservable inputs reflect the Museum's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the Museum's own assumptions.

Inventory

Inventory in the Museum's gift shops is stated at the lower of cost or market value, using the first-in, first-out method.

Investments and Investment Income

Investments in debt and equity securities with readily determinable fair values and all investments in debt securities are reported at fair value as determined by quoted market prices with gains and losses included in the statement of activities. Dividend and interest income is recorded as earned. Restricted investment income whose restrictions are satisfied in the same period are reported as unrestricted.

Donated investments are recorded at fair value at the date of receipt.

The Museum invests in a professionally-managed portfolio that contains various types of securities (**See Note 5**). Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

Property and Equipment

Property and equipment are carried at cost, if purchased, and at the fair value at the date of donation if donated. The Museum capitalizes all expenditures for property and equipment in excess of \$2,000. Depreciation is computed on the straight-line basis over estimated useful lives of three to ten years for furniture and equipment, twenty-five to thirty years for the leasehold improvements and building, and ten years for the permanent exhibits.

Works of art acquired either through purchase or donation are not capitalized. Accordingly, the cost of collection items purchased is reported as a decrease in net assets and proceeds from the sale of collection items are reported as an increase in net assets.

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

Beneficial Interest in Perpetual Trust

The beneficial interest in perpetual trust is reported at fair value and is equal to the Museum's share of the assets in the trust.

Contributions and Grants

Contributions and grants are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions and grants whose restrictions are satisfied in the same period are reported as unrestricted.

Contributions and grants that must be used to acquire property and equipment are reported as increases in temporarily restricted net assets. It is the Museum's policy to imply a time restriction, based on the assets' estimated useful lives for such contributions. Accordingly, these contributions are recorded as increases in temporarily restricted net assets and the Museum reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the property and equipment.

Unconditional contributions and grants are recognized as revenue when the related promise to give is received. Conditional contributions and grants are recognized as revenue when the conditions are satisfied. Conditional contributions and grants received prior to satisfying the conditions are included in "**advances and deferred revenue**" in the accompanying statement of financial position.

Contributed Services

The Museum receives significant amounts of time from individuals who perform various functions for the Museum without compensation. The financial statements do not reflect the value of these contributed services since the services do not meet the criteria for recognition.

Functional Allocation of Expenses

The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited, primarily based upon the relative time spent by Museum employees on each function.

Income Tax Status

The Museum is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Museum qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Generally accepted accounting principles prescribe a minimum recognition threshold that a tax position is required to meet in order to be recognized in the financial statements. The Museum believes that it had no uncertain tax positions as defined in the standard and, as a result, the adoption of the standard had no impact on the Museum's financial statements.

The tax returns for the Museum for the years ended December 31, 2010, 2011 and 2012 are subject to examination by the Internal Revenue Service and other various taxing authorities.

Concentration of Credit Risk

Financial instruments which potentially subject the Museum to concentration of credit risk are cash and contributions receivable. The Museum maintains its cash at various high-quality financial institutions. At times, such deposits may exceed federally-insured limits. The composition of contributions receivable is more fully described in Notes 3 and 4.

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

Reclassifications

Certain items in the 2012 comparative information have been reclassified in order to conform to the 2013 presentation.

(3) CONTRIBUTIONS RECEIVABLE, FACILITIES

In July 2007, the Museum entered into an agreement with the County of Bucks pursuant to which the Museum leases 12,000 square feet in Doylestown, Pennsylvania for a museum facility and administrative offices. The agreement requires the Museum to pay rent of \$1 per year until its expiration on May 31, 2036.

In connection with this agreement, the Museum has reflected the following amounts in the accompanying financial statements based upon the estimated fair market value of the leased space.

	<u>2013</u>	<u>2012</u>
<u>Statement of Financial Position</u>		
Contributions receivable		
Gross	\$ 5,745,000	\$ 5,973,000
Discount to present value	<u>(3,031,400)</u>	<u>(3,229,300)</u>
	<u>\$ 2,713,600</u>	<u>\$ 2,743,700</u>
<u>Statement of Activities</u>		
Contributions		
Amortization of discount	<u>\$ 197,900</u>	<u>\$ 199,900</u>

(4) CONTRIBUTIONS RECEIVABLE, CAPITAL CAMPAIGN AND OTHER

Capital campaign and other contributions receivable consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unrestricted	\$ 53,199	\$ 18,678
Restricted for endowment campaign	353,500	356,000
Exhibitions and other purposes	2,657	9,633
Capital campaign	<u>69,151</u>	<u>1,097,992</u>
	478,507	1,482,303
Less discount to net present value	(153,200)	(174,000)
Less allowance for uncollectible promises	<u>(34,000)</u>	<u>(50,000)</u>
Net unconditional promises to give	<u>\$ 291,307</u>	<u>\$ 1,258,303</u>
	<u>2013</u>	<u>2012</u>
Amount due in:		
Less than one year	\$ 126,356	\$ 818,119
One to five years	2,151	314,184
Thereafter	<u>350,000</u>	<u>350,000</u>
	<u>\$ 478,507</u>	<u>\$ 1,482,303</u>

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

(5) INVESTMENTS

Investments consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Money market funds	\$ 7,069	\$ 12,637
Certificate of deposits	-	262,360
Mutual funds		
Equity	12,215,266	10,056,872
Fixed Income	<u>4,275,556</u>	<u>4,807,288</u>
	<u>\$16,497,891</u>	<u>\$15,139,157</u>

Investment income was comprised of the following:

	<u>2013</u>	<u>2012</u>
Net realized and unrealized gain	\$2,259,275	\$1,254,170
Interest and dividends	402,351	434,627
Distributions from perpetual trust	<u>50,091</u>	<u>48,185</u>
	<u>\$2,711,717</u>	<u>\$1,736,982</u>

(6) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$17,031,274	\$17,024,734
Furniture and equipment	694,734	681,281
Permanent exhibits	676,425	676,425
Rental real estate		
Land	602,918	602,918
Buildings	775,002	775,002
Construction in progress	<u>8,000</u>	<u>-</u>
	19,788,353	19,760,360
Less accumulated depreciation	<u>(6,708,513)</u>	<u>(5,988,607)</u>
Total	<u>\$13,079,840</u>	<u>\$13,771,753</u>

In order to obtain space for future expansion, the Museum has purchased three properties adjacent to its facilities. The purchase price of these properties was \$1,377,920, of which \$602,918 was allocated to the land and \$775,002 was allocated to the buildings. The buildings are currently being used as residential rental property. Rental income, which is included in "*miscellaneous income*" in the accompanying statement of activities, was \$101,043 and \$93,393 for 2013 and 2012, respectively.

(7) BENEFICIAL INTEREST IN PERPETUAL TRUST

The Museum has been named as income beneficiary of a bank-administered perpetual trust. The principal portion of the trust is permanently restricted and income distributions are restricted for collection care and acquisition.

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

(8) LINE OF CREDIT

The Museum had a \$3,500,000 bank revolving line-of-credit used to finance construction that expired July 2013. Advances under this line were secured by a portion of the Museum's securities and bore interest at the 30 day LIBOR rate plus 75 basis points. In 2013, this line of credit was modified into a mortgage payable (**See Note 9**).

The Museum also has a \$400,000 bank line of credit with a bank that is payable on demand. Advances under this line are secured by one of the Museum properties adjacent to its facilities and bears interest at the bank's announced Prime rate. There were no advances outstanding at December 31, 2013 and 2012.

(9) MORTGAGE NOTES PAYABLE

In connection with the purchase of two properties adjacent to its facilities (**See Note 6**), the Museum issued two mortgage notes payable, which are secured by the land and building comprising the adjacent properties and currently bear interest at 4.75% and adjust to the prime rate every five years. The first note requires monthly principal and interest payments through September 2018 and had an outstanding balance of \$135,321 at December 31, 2013 and \$158,686 at December 31, 2012. The second note requires monthly principal and interest payments through July 2023 and had an outstanding balance of \$210,506 at December 31, 2013 and \$226,645 at December 31, 2012.

In 2013, the Museum modified the line of credit above into a mortgage note payable which currently bears interest at 2.25% and will adjust to the prime rate minus 1.00% every three years. The note requires monthly principal and interest payments through July 2017 and had an outstanding balance of \$88,653 at December 31, 2013.

The mortgage notes payable mature as follows:

Year ending December 31,

2014	\$ 70,255
2015	72,323
2016	74,453
2017	64,510
2018	44,366
Thereafter	<u>108,573</u>
	<u>\$434,480</u>

(10) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes and periods:

	<u>Balance</u> <u>December 31, 2012</u>	<u>Additions</u>	<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance</u> <u>December 31, 2013</u>
<u>Purpose restrictions</u>				
Exhibits	\$ 76,452	\$226,875	\$(128,148)	\$ 175,179
Other	46,537	77,420	(78,619)	45,338
<u>Time restrictions</u>				
Donated facilities	2,743,700	197,900	(228,000)	2,713,600
Long-lived assets	9,882,108	-	(467,467)	9,414,641
Operating expenses	<u>109,513</u>	<u>21,544</u>	<u>(11,750)</u>	<u>119,307</u>
	<u>\$12,858,310</u>	<u>\$523,739</u>	<u>\$(913,984)</u>	<u>\$12,468,065</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2013

(11) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

Endowments	\$7,065,594
Beneficial interest in perpetual trust	<u>1,059,754</u>
	<u>\$8,125,348</u>

Permanently restricted net assets include two endowment funds to be held indefinitely. The income from one endowment is available for general operating expenses and the income from the other endowment is restricted for collection care and acquisition.

(12) ENDOWMENT FUNDS

An accounting standard exists which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("*UPMIFA*"). The Museum is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

In accordance with Pennsylvania statutes, the Museum has adopted investment and spending policies for its 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 these endowment assets over the long-term. The Museum's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The spending policy calculates the amount of money annually distributed from the permanently restricted endowment fund to support various programs. The current spending policy is to distribute an amount equal to 7% of a moving three-year average of the fair value of the endowment fund.

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$8,740,647	\$6,346,524	\$15,087,171
Additions and other changes	-	61,733	61,733
Other transfers	(346,833)	-	(346,833)
Interest and dividends	238,461	163,109	401,570
Realized and unrealized loss	1,341,607	917,668	2,259,275
Spending policy distribution	<u>(553,240)</u>	<u>(423,440)</u>	<u>(976,680)</u>
Endowment net assets, end of year	<u>\$9,420,642</u>	<u>\$7,065,594</u>	<u>\$16,486,236</u>

(13) RETIREMENT PLAN

The Museum has a defined contribution plan covering substantially all eligible employees. The provisions of the plan permit the employees to contribute from 1% to 7% of their salary to the plan. The Museum has agreed to match 100% of the employees' contributions. The Museum's contributions were \$65,638 and \$63,260 for 2013 and 2012, respectively.

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(14) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following is a summary of assets and liabilities measured at fair value on a recurring basis and the valuation inputs used to value them:

<u>Description</u>	<u>Balance December 31, 2013</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Money market funds	\$ 7,069	\$ 7,069	\$ -	\$ -
Mutual funds				
Equity	12,215,266	12,215,266	-	-
Fixed income	4,275,556	4,275,556	-	-
Contributions receivable	3,004,907	-	3,004,907	-
Beneficial interest in perpetual trust	1,059,754	-	-	1,059,754
Beneficial interest in remainder trust	<u>160,612</u>	<u>-</u>	<u>-</u>	<u>160,612</u>
	<u>\$20,723,164</u>	<u>\$16,497,891</u>	<u>\$3,004,907</u>	<u>\$1,220,366</u>
Liabilities				
Charitable gift annuity obligations	<u>\$ 61,066</u>	<u>\$ -</u>	<u>\$ 61,066</u>	<u>\$ -</u>

Level 3 assets (beneficial interest in perpetual trust and beneficial interest in remainder trust) had a \$78,925 gain in the statement of activities in 2013.

(15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 2, 2014, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2013 that required recognition or disclosure in the financial statements.