

James A. Michener Art Museum

Financial Statements
Year Ended December 31, 2015



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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, 2015, 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 the James A. Michener Art Museum as of December 31, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD, LLP.

**Philadelphia, Pennsylvania
June 20, 2016**

JAMES A. MICHENER ART MUSEUM

STATEMENT OF FINANCIAL POSITION

December 31, 2015 with comparative totals for 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 544,190	\$ 321,333
Contributions receivable		
Facilities	2,646,600	2,681,300
Other	269,715	296,910
Inventory - Museum gift shop	112,434	84,764
Prepaid expenses and other	43,768	37,566
Investments	15,572,056	16,729,666
Property and equipment, net	11,952,468	12,467,381
Beneficial interest in perpetual trust	1,012,879	1,073,580
Beneficial interest in remainder trusts	152,400	162,927
Cash value of life insurance policies	39,477	38,645
Collections	-	-
	<hr/>	<hr/>
Total assets	\$ 32,345,987	\$ 33,894,072
	<hr/>	<hr/>
LIABILITIES		
Accounts payable and accrued expenses	\$ 55,645	\$ 55,886
Advances and deferred revenue	7,800	15,706
Charitable gift annuity obligations	58,000	58,900
Mortgage notes payable	252,851	316,924
	<hr/>	<hr/>
Total liabilities	374,296	447,416
	<hr/>	<hr/>
NET ASSETS		
Unrestricted		
Operating	(1,200)	-
Board designated		
Endowment/Project	8,742,697	9,314,133
Replacement reserve	449,705	669,750
Plant	3,208,704	3,214,545
	<hr/>	<hr/>
	12,399,906	13,198,428
Temporarily restricted	11,751,074	11,959,712
Permanently restricted	7,820,711	8,288,516
	<hr/>	<hr/>
Total net assets	31,971,691	33,446,656
	<hr/>	<hr/>
Total liabilities and net assets	\$ 32,345,987	\$ 33,894,072
	<hr/>	<hr/>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

STATEMENT OF ACTIVITIES

Year ended December 31, 2015 with comparative totals for 2014

	Unrestricted				Total
	Operating	Board Designated		Plant	
		Endowment/ Project	Replacement Reserve		
SUPPORT					
Grants and contributions	\$ 784,422	\$ -	\$ -	\$ -	\$ 784,422
In-kind contribution - facilities	-	-	-	-	-
Total support	<u>784,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>784,422</u>
REVENUE					
Admission fees	196,891	-	-	-	196,891
Memberships	325,733	-	-	-	325,733
Museum shop	188,064	-	-	-	188,064
Program fees	274,292	-	-	-	274,292
Miscellaneous income	298,217	-	-	-	298,217
Total revenue	<u>1,283,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,283,197</u>
ENDOWMENT SPENDING POLICY	<u>905,910</u>	<u>(534,737)</u>	<u>-</u>	<u>-</u>	<u>371,173</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>875,856</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>875,856</u>
Total support, revenue and net assets released	<u>3,849,385</u>	<u>(534,737)</u>	<u>-</u>	<u>-</u>	<u>3,314,648</u>
EXPENSES					
Museum services	2,956,962	16,026	-	-	2,972,988
Supporting services					
General and administrative	527,564	2,966	-	-	530,530
Fund-raising	592,545	3,739	-	-	596,284
Total expenses	<u>4,077,071</u>	<u>22,731</u>	<u>-</u>	<u>-</u>	<u>4,099,802</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	<u>(227,686)</u>	<u>(557,468)</u>	<u>-</u>	<u>-</u>	<u>(785,154)</u>
OTHER CHANGES					
Change in net assets not capitalized					
Collection items purchased	(48,050)	-	-	-	(48,050)
Loss on disposal of property and equipment	-	-	-	(5,274)	(5,274)
Investment income (loss)	53,924	(13,968)	-	-	39,956
Change in value of split interest agreements	-	-	-	-	-
Transfers:					
Property and equipment additions	(54,262)	-	-	54,262	-
Principal payments on mortgage notes payable	(47,252)	-	-	47,252	-
Depreciation	283,293	-	-	(283,293)	-
Other	38,833	-	(220,045)	181,212	-
Total other changes	<u>226,486</u>	<u>(13,968)</u>	<u>(220,045)</u>	<u>(5,841)</u>	<u>(13,368)</u>
CHANGE IN NET ASSETS	<u>(1,200)</u>	<u>(571,436)</u>	<u>(220,045)</u>	<u>(5,841)</u>	<u>(798,522)</u>
NET ASSETS					
Beginning of year	<u>-</u>	<u>9,314,133</u>	<u>669,750</u>	<u>3,214,545</u>	<u>13,198,428</u>
End of year	<u>\$ (1,200)</u>	<u>\$8,742,697</u>	<u>\$ 449,705</u>	<u>\$3,208,704</u>	<u>\$12,399,906</u>

See accompanying notes

<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
		<u>2015</u>	<u>2014</u>
\$ 469,740	\$ 19,999	\$ 1,274,161	\$ 825,622
193,300	-	193,300	195,700
<u>663,040</u>	<u>19,999</u>	<u>1,467,461</u>	<u>1,021,322</u>
-	-	196,891	395,916
-	-	325,733	336,129
-	-	188,064	184,664
-	-	274,292	245,449
-	-	298,217	364,368
-	-	<u>1,283,197</u>	<u>1,526,526</u>
<u>10,955</u>	<u>(382,128)</u>	-	-
<u>(875,856)</u>	-	-	-
<u>(201,861)</u>	<u>(362,129)</u>	<u>2,750,658</u>	<u>2,547,848</u>
-	-	2,972,988	3,107,112
-	-	530,530	558,198
-	-	596,284	554,594
-	-	<u>4,099,802</u>	<u>4,219,904</u>
<u>(201,861)</u>	<u>(362,129)</u>	<u>(1,349,144)</u>	<u>(1,672,056)</u>
-	-	(48,050)	(6,500)
-	-	(5,274)	-
-	(31,385)	8,571	1,213,899
(6,777)	(74,291)	(81,068)	7,586
-	-	-	-
-	-	-	-
-	-	-	-
<u>(6,777)</u>	<u>(105,676)</u>	<u>(125,821)</u>	<u>1,214,985</u>
(208,638)	(467,805)	(1,474,965)	(457,071)
<u>11,959,712</u>	<u>8,288,516</u>	<u>33,446,656</u>	<u>33,903,727</u>
<u>\$11,751,074</u>	<u>\$ 7,820,711</u>	<u>\$31,971,691</u>	<u>\$33,446,656</u>

JAMES A. MICHENER ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2015 with comparative totals for 2014

	<u>Museum Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>	
		<u>General and Administrative</u>	<u>Fund-raising</u>	<u>2015</u>	<u>2014</u>
Salaries and fringe benefits	\$ 1,069,442	\$ 197,908	\$ 249,524	\$ 1,516,874	\$ 1,495,319
Advertising	62,548	700	1,000	64,248	77,173
Depreciation	525,327	97,216	122,570	745,113	734,972
General operating expenses	134,596	24,941	30,871	190,408	145,793
Insurance	43,350	12,117	377	55,844	52,716
Interest	-	9,366	-	9,366	12,323
Museum store purchases	98,975	-	-	98,975	88,797
Postage	22,187	1,999	5,230	29,416	31,120
Printing	84,145	-	7,889	92,034	106,309
Professional services	415,667	47,918	94,062	557,647	599,475
Property maintenance	109,400	52,671	24,990	187,061	181,647
Real estate taxes	-	18,016	-	18,016	16,454
Rent-in-kind	160,747	29,747	37,506	228,000	228,000
Temporary exhibition expenses	146,035	-	-	146,035	275,515
Telecommunications	7,415	1,310	1,649	10,374	10,003
Utilities	86,004	25,143	20,067	131,214	129,176
Miscellaneous	7,150	11,478	549	19,177	35,112
	<u>\$ 2,972,988</u>	<u>\$ 530,530</u>	<u>\$ 596,284</u>	<u>\$ 4,099,802</u>	<u>\$ 4,219,904</u>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

STATEMENT OF CASH FLOWS

Year ended December 31, 2015 with comparative totals for 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (1,474,965)	\$ (457,071)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Net realized and unrealized (gain) loss on investments	420,312	(744,376)
Depreciation	745,113	734,972
Loss on disposal of property and equipment	5,274	-
Collection items purchased	48,050	6,500
Change in value of split interest agreements	81,068	(7,586)
(Increase) decrease in		
Contributions receivable	61,895	26,697
Inventory - Museum gift shop	(27,670)	9,927
Prepaid expenses and other	(6,202)	32,750
Increase (decrease) in		
Accounts payable and accrued expenses	(241)	(115,019)
Advances and deferred revenue	(7,906)	(83,281)
Charitable gift annuity obligations	(11,572)	(11,571)
Net cash used for operating activities	<u>(166,844)</u>	<u>(608,058)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(391,499)	(504,256)
Proceeds from sale of investments	1,128,797	1,016,857
Acquisition of property and equipment	(235,474)	(122,513)
Collection items purchased	(48,050)	(6,500)
Net cash provided by investing activities	<u>453,774</u>	<u>383,588</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of mortgage notes payable	(64,073)	(117,556)
Net increase (decrease) in cash	222,857	(342,026)
CASH		
Beginning of year	<u>321,333</u>	<u>663,359</u>
End of year	<u>\$ 544,190</u>	<u>\$ 321,333</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 9,366</u>	<u>\$ 12,323</u>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

(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 Trustees to function as an endowment or for specific projects. Replacement Reserve unrestricted net assets have been restricted by the Board of Trustees 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 ("**GAAP**"). Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended December 31, 2014, 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, 2015

Fair Value Measurements of Assets and Liabilities

GAAP defines 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, 2015

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).

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain tax positions. GAAP prescribes a minimum 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 GAAP.

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 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, 2015

(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>2015</u>	<u>2014</u>
<u>Statement of Financial Position</u>		
Contributions receivable		
Gross	\$ 5,289,000	\$ 5,517,000
Discount to present value	<u>(2,642,400)</u>	<u>(2,835,700)</u>
	<u>\$ 2,646,600</u>	<u>\$ 2,681,300</u>
<u>Statement of Activities</u>		
Contributions		
Amortization of discount	<u>\$ 193,300</u>	<u>\$ 195,700</u>

(4) CONTRIBUTIONS RECEIVABLE, CAPITAL CAMPAIGN AND OTHER

Capital campaign and other contributions receivable consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unrestricted	\$ 26,715	\$ 56,529
Restricted for endowment campaign	350,000	351,000
Exhibitions and other purposes	21,200	30,000
Capital campaign	<u>-</u>	<u>481</u>
	397,915	438,010
Less discount to net present value	<u>(128,200)</u>	<u>(141,100)</u>
Net unconditional promises to give	<u>\$ 269,715</u>	<u>\$ 296,910</u>
	<u>2015</u>	<u>2014</u>
Amount due in:		
Less than one year	\$ 47,915	\$ 88,010
After five years	<u>350,000</u>	<u>350,000</u>
	<u>\$ 397,915</u>	<u>\$ 438,010</u>

(5) INVESTMENTS

Investments consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 2,240	\$ 4,239
Mutual funds		
Equity	10,897,793	12,424,276
Fixed Income	<u>4,672,023</u>	<u>4,301,151</u>
	<u>\$15,572,056</u>	<u>\$16,729,666</u>

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Investment income was comprised of the following:

	<u>2015</u>	<u>2014</u>
Net realized and unrealized gain (loss)	\$ (420,312)	\$ 744,376
Interest and dividends	375,203	416,535
Distributions from perpetual trust	<u>53,680</u>	<u>52,988</u>
	<u>\$ 8,571</u>	<u>\$ 1,213,899</u>

(6) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$17,289,208	\$17,157,258
Furniture and equipment	793,964	699,263
Permanent exhibits	676,425	676,425
Rental real estate		
Land	602,918	602,918
Building	<u>775,002</u>	<u>775,002</u>
	20,137,517	19,910,866
Less accumulated depreciation	<u>(8,185,049)</u>	<u>(7,443,485)</u>
Total	<u>\$11,952,468</u>	<u>\$12,467,381</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 \$98,263 and \$108,152 for 2015 and 2014, 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.

(8) LINE OF CREDIT

The Museum 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, 2015 and 2014.

(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 3.25% 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 \$80,947 at December 31, 2015 and \$108,581 at December 31, 2014. The second note requires monthly principal and interest payments through July 2023 and had an outstanding balance of \$171,904 at December 31, 2015 and \$191,522 at December 31, 2014.

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 was paid off in 2015 and had a balance of \$16,821 at December 31, 2014.

The mortgage notes payable mature as follows:

Year ending December 31,

2016	\$ 48,975
2017	50,590
2018	44,454
2019	22,448
2020	23,189
Thereafter	<u>63,195</u>
	<u>\$252,851</u>

(10) TEMPORARILY RESTRICTED NET ASSETS

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

	<u>Balance</u> <u>December 31, 2014</u>	<u>Additions</u>	<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance</u> <u>December 31, 2015</u>
<u>Purpose restrictions</u>				
Exhibits	\$ 155,000	\$315,000	\$ (87,613)	\$ 382,387
Other	32,802	81,095	(74,423)	39,474
<u>Time restrictions</u>				
Donated facilities	2,681,300	193,300	(228,000)	2,646,600
Long-lived assets	8,952,733	-	(461,820)	8,490,913
Operating expenses	<u>137,877</u>	<u>77,823</u>	<u>(24,000)</u>	<u>191,700</u>
	<u>\$11,959,712</u>	<u>\$667,218</u>	<u>\$(875,856)</u>	<u>\$11,751,074</u>

(11) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

Endowments	\$6,807,832
Beneficial interest in perpetual trust	<u>1,012,879</u>
	<u>\$7,820,711</u>

Permanently restricted net assets include several endowment funds to be held indefinitely. The income from endowments is available for general operating expenses or restricted for collection care and acquisition and other purposes.

(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.

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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 5.9% 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	\$9,314,133	\$7,214,936	\$16,529,069
Additions and other changes	-	6,409	6,409
Investment loss	(36,699)	(31,385)	(68,084)
Spending policy distribution	<u>(534,737)</u>	<u>(382,128)</u>	<u>(916,865)</u>
Endowment net assets, end of year	<u>\$8,742,697</u>	<u>\$6,807,832</u>	<u>\$15,550,529</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 \$47,109 and \$54,389 for 2015 and 2014, respectively.

(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, 2015</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	\$ 2,240	\$ 2,240	\$ -	\$ -
Mutual funds				
Equity	10,897,793	10,897,793	-	-
Fixed income	4,672,023	4,672,023	-	-
Contributions receivable	2,916,315	-	2,916,315	-
Beneficial interest in perpetual trust	1,012,879	-	-	1,012,879
Beneficial interest in remainder trust	<u>152,400</u>	<u>-</u>	<u>-</u>	<u>152,400</u>
	<u>\$19,653,650</u>	<u>\$15,572,056</u>	<u>\$2,916,315</u>	<u>\$1,165,279</u>
Liabilities				
Charitable gift annuity obligations	<u>\$ 58,000</u>	<u>\$ -</u>	<u>\$ 58,000</u>	<u>\$ -</u>

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Level 3 assets (beneficial interest in perpetual trust and beneficial interest in remainder trust) had a \$71,228 loss in the statement of activities in 2015.

(15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 20, 2016, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in the financial statements.