

James A. Michener Art Museum

Financial Statements
Year Ended December 31, 2017



1835 Market Street, 3rd Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD, LLP.

**Philadelphia, Pennsylvania
June 15, 2018**

JAMES A. MICHENER ART MUSEUM

STATEMENT OF FINANCIAL POSITION

December 31, 2017 with comparative totals for 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 1,154,836	\$ 976,453
Contributions receivable		
Facilities	2,564,100	2,609,300
Other	352,531	451,470
Inventory - Museum gift shop	90,237	87,942
Prepaid expenses and other	39,578	49,580
Investments	17,813,566	16,092,939
Property and equipment, net	10,521,729	11,203,561
Beneficial interest in perpetual trust	1,159,890	1,044,417
Beneficial interest in remainder trusts	173,400	158,400
Cash value of life insurance policies	41,073	40,291
Collections	-	-
Total assets	<u>\$ 33,910,940</u>	<u>\$ 32,714,353</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 60,758	\$ 32,014
Advances and deferred revenue	60,931	10,930
Charitable gift annuity obligations	49,600	52,250
Mortgage notes payable	153,590	204,047
Total liabilities	<u>324,879</u>	<u>299,241</u>
NET ASSETS		
Unrestricted		
Operating	(68,440)	16,159
Board designated		
Endowment/Project	9,718,776	8,987,404
Replacement reserve	640,497	503,097
Plant	2,800,586	2,970,281
	13,091,419	12,476,941
Temporarily restricted	11,509,455	11,820,517
Permanently restricted	8,985,187	8,117,654
Total net assets	<u>33,586,061</u>	<u>32,415,112</u>
Total liabilities and net assets	<u>\$ 33,910,940</u>	<u>\$ 32,714,353</u>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

STATEMENT OF ACTIVITIES

Year ended December 31, 2017 with comparative totals for 2016

	Unrestricted				Total
	Operating	Board Designated		Plant	
	Operating	Endowment/ Project	Replacement Reserve	Plant	Total
SUPPORT					
Grants and contributions	\$ 772,791	\$ -	\$ -	\$ -	\$ 772,791
In-kind contribution - facilities	-	-	-	-	-
Total support	<u>772,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>772,791</u>
REVENUE					
Admission fees	185,955	-	-	-	185,955
Memberships	351,164	-	-	-	351,164
Museum shop	185,212	-	-	-	185,212
Program fees	315,650	-	-	-	315,650
Miscellaneous income	290,804	-	-	-	290,804
Total revenue	<u>1,328,785</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,328,785</u>
ENDOWMENT SPENDING POLICY	<u>951,919</u>	<u>(575,317)</u>	<u>-</u>	<u>-</u>	<u>376,602</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>1,150,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,150,057</u>
Total support, revenue and net assets released	<u>4,203,552</u>	<u>(575,317)</u>	<u>-</u>	<u>-</u>	<u>3,628,235</u>
EXPENSES					
Museum services	3,397,193	12,333	-	-	3,409,526
Supporting services					
General and administrative	565,639	2,380	-	-	568,019
Fundraising	612,636	2,847	-	-	615,483
Total expenses	<u>4,575,468</u>	<u>17,560</u>	<u>-</u>	<u>-</u>	<u>4,593,028</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	<u>(371,916)</u>	<u>(592,877)</u>	<u>-</u>	<u>-</u>	<u>(964,793)</u>
OTHER CHANGES					
Collection items purchased	(11,250)	-	-	-	(11,250)
Investment income	66,272	1,524,249	-	-	1,590,521
Change in value of split interest agreements	-	-	-	-	-
Transfers:					
Principal payments on mortgage notes payable	(50,457)	-	-	50,457	-
Depreciation	296,680	-	-	(296,680)	-
Replacement reserve addition	-	(200,000)	200,000	-	-
Other	(13,928)	-	(62,600)	76,528	-
Total other changes	<u>287,317</u>	<u>1,324,249</u>	<u>137,400</u>	<u>(169,695)</u>	<u>1,579,271</u>
CHANGE IN NET ASSETS	<u>(84,599)</u>	<u>731,372</u>	<u>137,400</u>	<u>(169,695)</u>	<u>614,478</u>
NET ASSETS					
Beginning of year	<u>16,159</u>	<u>8,987,404</u>	<u>503,097</u>	<u>2,970,281</u>	<u>12,476,941</u>
End of year	<u>\$ (68,440)</u>	<u>\$ 9,718,776</u>	<u>\$ 640,497</u>	<u>\$ 2,800,586</u>	<u>\$ 13,091,419</u>

See accompanying notes

<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
		<u>2017</u>	<u>2016</u>
\$ 629,835	\$ 30,453	\$ 1,433,079	\$ 1,659,872
187,800	-	187,800	190,700
<u>817,635</u>	<u>30,453</u>	<u>1,620,879</u>	<u>1,850,572</u>
-	-	185,955	275,688
-	-	351,164	349,339
-	-	185,212	248,906
-	-	315,650	290,955
-	-	290,804	300,146
<u>-</u>	<u>-</u>	<u>1,328,785</u>	<u>1,465,034</u>
11,860	(388,462)	-	-
<u>(1,150,057)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(320,562)	(358,009)	2,949,664	3,315,606
-	-	3,409,526	3,094,729
-	-	568,019	518,001
-	-	615,483	620,897
<u>-</u>	<u>-</u>	<u>4,593,028</u>	<u>4,233,627</u>
(320,562)	(358,009)	(1,643,364)	(918,021)
-	-	(11,250)	(37,580)
-	1,112,708	2,703,229	1,366,492
9,500	112,834	122,334	32,530
-	-	-	-
-	-	-	-
-	-	-	-
<u>9,500</u>	<u>1,225,542</u>	<u>2,814,313</u>	<u>1,361,442</u>
(311,062)	867,533	1,170,949	443,421
<u>11,820,517</u>	<u>8,117,654</u>	<u>32,415,112</u>	<u>31,971,691</u>
<u>\$ 11,509,455</u>	<u>\$ 8,985,187</u>	<u>\$ 33,586,061</u>	<u>\$ 32,415,112</u>

JAMES A. MICHENER ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2017 with comparative totals for 2016

	<u>Museum Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>	
		<u>General and Administrative</u>	<u>Fundraising</u>	<u>2017</u>	<u>2016</u>
Salaries and fringe benefits	\$ 1,183,636	\$ 228,428	\$ 273,199	\$ 1,685,263	\$ 1,692,191
Advertising	84,287	93	-	84,380	50,455
Depreciation	532,630	102,791	122,939	758,360	760,829
General operating expenses	115,576	28,131	26,877	170,584	202,949
Insurance	50,516	11,330	409	62,255	55,118
Interest	-	6,006	-	6,006	7,658
Museum store purchases	96,654	-	-	96,654	128,717
Postage	24,756	4,064	3,596	32,416	33,131
Printing	96,936	996	8,545	106,477	116,582
Professional services	693,566	35,736	99,926	829,228	501,133
Property maintenance	93,085	64,422	21,336	178,843	169,746
Real estate taxes	-	16,454	-	16,454	16,454
Rent-in-kind	163,646	31,582	37,772	233,000	228,000
Temporary exhibition expenses	169,701	-	-	169,701	94,474
Telecommunications	7,487	1,237	1,478	10,202	11,334
Utilities	78,834	22,695	18,195	119,724	118,440
Miscellaneous	18,216	14,054	1,211	33,481	46,416
	<u>\$ 3,409,526</u>	<u>\$ 568,019</u>	<u>\$ 615,483</u>	<u>\$ 4,593,028</u>	<u>\$ 4,233,627</u>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

STATEMENT OF CASH FLOWS

Year ended December 31, 2017 with comparative totals for 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 1,170,949	\$ 443,421
<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	(2,275,335)	(942,687)
Depreciation	758,360	760,829
Collection items purchased	11,250	37,580
Change in value of split interest agreements	(122,334)	(32,530)
Contributions restricted for long-term purposes	(30,453)	(75,791)
(Increase) decrease in		
Contributions receivable	129,139	(129,455)
Inventory - Museum gift shop	(2,295)	24,492
Prepaid expenses and other	10,002	(5,812)
Increase (decrease) in		
Accounts payable and accrued expenses	28,744	(23,631)
Advances and deferred revenue	50,001	3,130
Charitable gift annuity obligations	(11,571)	(11,572)
Net cash provided by (used for) operating activities	<u>(283,543)</u>	<u>47,974</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(405,439)	(493,520)
Proceeds from sale of investments	960,147	915,324
Acquisition of property and equipment	(76,528)	(11,922)
Collection items purchased	(11,250)	(37,580)
Net cash provided by investing activities	<u>466,930</u>	<u>372,302</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of mortgage notes payable	(50,457)	(48,804)
Contributions received for endowment purposes	45,453	60,791
Net cash provided by (used for) financing activities	<u>(5,004)</u>	<u>11,987</u>
Net increase in cash	178,383	432,263
CASH		
Beginning of year	<u>976,453</u>	<u>544,190</u>
End of year	<u>\$ 1,154,836</u>	<u>\$ 976,453</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 6,006</u>	<u>\$ 7,658</u>

See accompanying notes

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(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 promote the work of nationally and internationally known Delaware Valley artists of all eras and creative disciplines. The Museum presents exhibitions that explore a variety of artistic expressions and offers diverse educational programs that develop a lifelong involvement in 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, 2016, 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, 2017

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 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, 2017

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 presented 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, 2017

(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>2017</u>	<u>2016</u>
<u>Statement of Financial Position</u>		
Contributions receivable		
Gross	\$ 4,738,000	\$ 4,971,000
Discount to present value	<u>(2,173,900)</u>	<u>(2,361,700)</u>
	<u>\$ 2,564,100</u>	<u>\$ 2,609,300</u>
<u>Statement of Activities</u>		
Contributions		
Amortization of discount	<u>\$ 187,800</u>	<u>\$ 190,700</u>

(4) CONTRIBUTIONS RECEIVABLE, CAPITAL CAMPAIGN AND OTHER

Capital campaign and other contributions receivable consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 69,422	\$ 39,068
Restricted for endowment campaign	350,000	365,000
Exhibitions and other purposes	<u>33,109</u>	<u>161,902</u>
	452,531	565,970
Less discount to net present value	<u>(100,000)</u>	<u>(114,500)</u>
Net unconditional promises to give	<u>\$ 352,531</u>	<u>\$ 451,470</u>
	<u>2017</u>	<u>2016</u>
Amount due in:		
Less than one year	\$ 102,531	\$ 215,970
After five years	<u>350,000</u>	<u>350,000</u>
	<u>\$ 452,531</u>	<u>\$ 565,970</u>

(5) INVESTMENTS

Investments consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ -	\$ 2,543
Mutual funds		
Equity	13,115,068	11,541,369
Fixed Income	<u>4,698,498</u>	<u>4,549,027</u>
	<u>\$17,813,566</u>	<u>\$16,092,939</u>

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Investment income was comprised of the following:

	<u>2017</u>	<u>2016</u>
Net realized and unrealized gain	\$ 2,275,335	\$ 942,687
Interest and dividends	375,042	373,161
Distributions from perpetual trust	<u>52,852</u>	<u>50,644</u>
	<u>\$ 2,703,229</u>	<u>\$ 1,366,492</u>

(6) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$17,333,606	\$17,293,808
Furniture and equipment	824,135	787,405
Permanent exhibits	676,425	676,425
Rental real estate		
Land	602,918	602,918
Building	<u>775,002</u>	<u>775,002</u>
	20,212,086	20,135,558
Less accumulated depreciation	<u>(9,690,357)</u>	<u>(8,931,997)</u>
Total	<u>\$10,521,729</u>	<u>\$11,203,561</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 \$100,714 and \$107,890 for 2017 and 2016, 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, 2017 and 2016.

(9) MORTGAGE NOTES PAYABLE

The Museum issued two mortgage notes payable, which are secured by the land and building comprising two of 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 \$22,892 at December 31, 2017 and \$52,400 at December 31, 2016. The second note requires monthly principal and interest payments through July 2023 and had an outstanding balance of \$130,698 at December 31, 2017 and \$151,647 at December 31, 2016.

JAMES A. MICHENER ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

The mortgage notes payable mature as follows:

Year ending December 31,

2018	\$ 44,454
2019	22,448
2020	23,189
2021	23,960
2022	24,750
Thereafter	<u>14,789</u>
	<u>\$153,590</u>

(10) TEMPORARILY RESTRICTED NET ASSETS

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

	<u>Balance</u> <u>December 31, 2016</u>	<u>Additions</u>	<u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance</u> <u>December 31, 2017</u>
<u>Purpose restrictions</u>				
Exhibits	\$ 726,988	\$ 369,040	\$ (399,420)	\$ 696,608
Other	338,296	272,655	(51,457)	559,494
<u>Time restrictions</u>				
Donated facilities	2,609,300	187,800	(233,000)	2,564,100
Long-lived assets	8,029,233	-	(461,680)	7,567,553
Operating expenses	<u>116,700</u>	<u>9,500</u>	<u>(4,500)</u>	<u>121,700</u>
	<u>\$11,820,517</u>	<u>\$ 838,995</u>	<u>\$(1,150,057)</u>	<u>\$11,509,455</u>

(11) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

Endowments	\$7,825,297
Beneficial interest in perpetual trust	<u>1,159,890</u>
	<u>\$8,985,187</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 6% 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	\$8,987,404	\$7,073,237	\$16,060,641
Additions and other changes	-	27,814	27,814
Investment gain	1,506,689	1,112,708	2,619,397
Spending policy distribution	<u>(575,317)</u>	<u>(388,462)</u>	<u>(963,779)</u>
Endowment net assets, end of year	<u>\$9,918,776</u>	<u>\$7,825,297</u>	<u>\$17,744,073</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 \$54,908 and \$46,173 for 2017 and 2016, 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, 2017</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				
Investments				
Mutual funds				
Equity	\$13,115,068	\$13,115,068	\$ -	\$ -
Fixed income	4,698,498	4,698,498	-	-
Contributions receivable	2,916,631	-	2,916,631	-
Beneficial interest in perpetual trust	1,159,890	-	-	1,159,890
Beneficial interest in remainder trusts	<u>173,400</u>	<u>-</u>	<u>-</u>	<u>173,400</u>
	<u>\$22,063,487</u>	<u>\$17,813,566</u>	<u>\$2,916,631</u>	<u>\$1,333,290</u>
Liabilities				
Charitable gift annuity obligations	<u>\$ 49,600</u>	<u>\$ -</u>	<u>\$ 49,600</u>	<u>\$ -</u>

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Level 3 assets (beneficial interest in perpetual trust and beneficial interest in remainder trust) had a \$130,473 gain in the statement of activities in 2017.

(15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 15, 2018, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2017 that required recognition or disclosure in the financial statements.