



PORTLAND MUSEUM *of* ART

**FINANCIAL STATEMENTS**

**January 31, 2015 and 2014**

**With Independent Auditor's Report**



## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Portland Museum of Art

We have audited the accompanying financial statements of the Portland Museum of Art (PMA), which comprise the balance sheets as of January 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audits. We conducted our audits 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 of 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 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 PMA as of January 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*BerryDunn McNeil & Parker, LLC*

Portland, Maine  
June 1, 2015

PORTLAND MUSEUM OF ART

Balance Sheets

January 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 100,157	\$ 71,905
Accounts receivable	147,079	137,913
Inventory, at cost	182,554	220,273
Prepaid expenses	220,401	327,844
Contributions receivable, net	1,357,825	670,752
Bequest receivable, net	409,461	446,596
Beneficial interests in charitable gift annuities	440,190	440,190
Art collection (Note 1)	1	1
Land, buildings and equipment, net	15,704,515	13,580,273
Preservation in progress	789,190	584,474
Land held for future use	3,016,815	3,016,815
Investments	<u>27,629,060</u>	<u>27,743,488</u>
Total assets	<u>\$ 49,997,248</u>	<u>\$ 47,240,524</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 624,698	\$ 449,753
Lines of credit	852,000	195,000
Long-term note payable to bank	<u>66,282</u>	<u>78,537</u>
Total liabilities	<u>1,542,980</u>	<u>723,290</u>
Net assets		
Unrestricted	21,605,356	20,957,973
Temporarily restricted	3,240,612	2,105,181
Permanently restricted	<u>23,608,300</u>	<u>23,454,080</u>
Total net assets	<u>48,454,268</u>	<u>46,517,234</u>
Total liabilities and net assets	<u>\$ 49,997,248</u>	<u>\$ 47,240,524</u>

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

PORTLAND MUSEUM OF ART

Statements of Activities

Years Ended January 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets								
Public support and revenues (losses)								
Contributions and grants	\$ 1,981,982	\$ 2,884,843	\$ 154,220	\$ 5,021,045	\$ 1,760,515	\$ 203,254	\$ 159,220	\$ 2,122,989
Memberships	673,624	-	-	673,624	657,777	-	-	657,777
Admissions	513,633	-	-	513,633	562,139	-	-	562,139
Program revenues	168,297	20,182	-	188,479	237,569	30,910	-	268,479
PMA Store and facility use, net	(92,697)	-	-	(92,697)	(124,484)	-	-	(124,484)
Special events, net	53,157	-	-	53,157	63,030	-	-	63,030
Return on investments	38,010	1,405,179	179,363	1,622,552	356,689	1,526,097	329,037	2,211,823
Total public support and revenues (losses)	<u>3,336,006</u>	<u>4,310,204</u>	<u>333,583</u>	<u>7,979,793</u>	<u>3,513,235</u>	<u>1,760,261</u>	<u>488,257</u>	<u>5,761,753</u>
Net assets released from restrictions								
Satisfaction of program or capital asset purchase restrictions	1,950,469	(1,950,469)	-	-	925,314	(925,314)	-	-
Expiration of time restrictions	37,134	(37,134)	-	-	34,685	(34,685)	-	-
Homer Studio preservation	63,072	(63,072)	-	-	302,170	(302,170)	-	-
Earnings transferred by spending policy for operations	1,124,098	(1,124,098)	-	-	1,152,227	(1,152,227)	-	-
Total net assets released from restrictions	<u>3,174,773</u>	<u>(3,174,773)</u>	<u>-</u>	<u>-</u>	<u>2,414,396</u>	<u>(2,414,396)</u>	<u>-</u>	<u>-</u>
Transfers related to changes in permanently restricted corpus deficit	179,363	-	(179,363)	-	329,037	-	(329,037)	-
Total revenues (losses) and transfers	<u>6,690,142</u>	<u>1,135,431</u>	<u>154,220</u>	<u>7,979,793</u>	<u>6,256,668</u>	<u>(654,135)</u>	<u>159,220</u>	<u>5,761,753</u>
Expenses								
Program								
Exhibits and collections	3,171,366	-	-	3,171,366	3,358,341	-	-	3,358,341
Education	839,571	-	-	839,571	791,098	-	-	791,098
Collection items purchased	496,500	-	-	496,500	684,150	-	-	684,150
Management and general	450,840	-	-	450,840	459,709	-	-	459,709
Development and membership	1,084,482	-	-	1,084,482	1,075,350	-	-	1,075,350
Total expenses	<u>6,042,759</u>	<u>-</u>	<u>-</u>	<u>6,042,759</u>	<u>6,368,648</u>	<u>-</u>	<u>-</u>	<u>6,368,648</u>
Change in net assets	647,383	1,135,431	154,220	1,937,034	(111,980)	(654,135)	159,220	(606,895)
Net assets, beginning of year	<u>20,957,973</u>	<u>2,105,181</u>	<u>23,454,080</u>	<u>46,517,234</u>	<u>21,069,953</u>	<u>2,759,316</u>	<u>23,294,860</u>	<u>47,124,129</u>
Net assets, end of year	<u>\$21,605,356</u>	<u>\$ 3,240,612</u>	<u>\$23,608,300</u>	<u>\$ 48,454,268</u>	<u>\$ 20,957,973</u>	<u>\$ 2,105,181</u>	<u>\$23,454,080</u>	<u>\$ 46,517,234</u>

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

**PORTLAND MUSEUM OF ART**

**Statements of Cash Flows**

**Years Ended January 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 1,937,034	\$ (606,895)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	460,911	455,157
Net realized and unrealized gains on investments	(1,239,801)	(1,742,878)
Permanently restricted contributions	(154,220)	(159,220)
Contributions and investment returns restricted for acquisition and preservation, investment or collection	(975,648)	(327,170)
Collection items purchased	496,500	684,150
(Increase) decrease in		
Accounts receivable	(9,166)	(40,894)
Inventories	37,719	(53,557)
Prepaid expenses	107,443	(56,862)
Bequest receivable	37,135	34,685
Increase (decrease) in operating accounts payable and accrued expenses	<u>(96,132)</u>	<u>(46,002)</u>
Net cash provided (used) by operating activities	<u>601,775</u>	<u>(1,859,486)</u>
Cash flows from investing activities		
Acquisition of land, building, equipment and improvements and payments for preservation	(2,768,792)	(120,376)
Purchase of collection items	(246,500)	(684,150)
Proceeds from sale of investments	28,993,109	8,319,315
Purchases of investments	<u>(27,638,880)</u>	<u>(7,401,943)</u>
Net cash (used) provided by investing activities	<u>(1,661,063)</u>	<u>112,846</u>
Cash flows from financing activities		
Proceeds from permanently restricted contributions	376,792	415,298
Proceeds from contributions restricted for acquisition and preservation, investment or collection	66,003	615,107
Borrowings on line of credit	657,000	195,000
Proceeds from issuance of long-term debt	-	80,533
Principal payments on long-term debt	<u>(12,255)</u>	<u>(1,996)</u>
Net cash provided by financing activities	<u>1,087,540</u>	<u>1,303,942</u>
Net increase (decrease) in cash and cash equivalents	28,252	(442,698)
Cash and cash equivalents, beginning of year	<u>71,905</u>	<u>514,603</u>
Cash and cash equivalents, end of year	<u>\$ 100,157</u>	<u>\$ 71,905</u>
Supplemental disclosures		
Noncash investing transactions:		
Preservation in progress reported as accounts payable	\$ 21,077	\$ -
Collection purchases reported as accounts payable	<u>\$ 250,000</u>	<u>\$ -</u>

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

# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2015 and 2014

### **Nature of Organization**

The Portland Museum of Art, founded in 1882, is a not-for-profit educational institution dedicated to critical excellence in the visual arts. Art acquisitions, collections care and maintenance, exhibitions, programs, and general operations are supported by membership, private and corporate donations, endowment income, foundations, and grants from national and state agencies. The Mission and Vision Statements read:

#### **Mission Statement**

The Portland Museum of Art strives to enrich the lives of people through acquisition, preservation, and interpretation of the visual arts and the museum's architecturally significant buildings.

#### **Vision Statement**

The Portland Museum of Art will create outstanding exhibitions and educational programs to inspire our audiences. We embrace our rich past, dynamic present, and vibrant future to be a vital arts center for the city, region, and nation. Leveraging the strength of our collection, scholarship, and geographic location, we will excel in these distinct areas:

- The ongoing exploration of the creative culture of the State of Maine within the context of American art and culture.
- The interpretation of European modernism through our collection and programs.
- The presentation of progressive exhibitions beyond our collection that address local and global issues.
- The integration of our unique architectural campus into the fabric of Portland and the State of Maine.

The Portland Museum of Art strives to engage our audiences in a dialogue about the relevance of art and culture to our lives. Aspiring to facilitate this conversation through exhibitions, programs, and partnerships, we dedicate ourselves to serving and supporting our local and national community. In order to provide a learning environment for our audiences, we commit ourselves to good governance, professional development, and fiscal responsibility.

# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2015 and 2014

### 1. Summary of Significant Accounting Policies

#### Financial Statement Presentation

The Portland Museum of Art (the PMA) reports information regarding its financial position and activities based upon the existence or absence of donor-imposed restrictions in three categories of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets are those not subject to donor-imposed stipulations.
- Temporarily restricted net assets are those whose use has been limited by donors to a specified purpose or time period. Bequests and contributions receivable for future periods are classified as temporarily restricted until due. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The income from permanently restricted net assets may be unrestricted, temporarily restricted, or permanently restricted by donors.

#### Use of Estimates

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

#### Cash and Cash Equivalents

Cash and cash equivalents include money market funds and other investments with original maturities of three months or less, which are not held for investment purposes.

The PMA maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The PMA has not experienced any losses in such accounts and management believes the PMA is not exposed to any significant risk with respect to these accounts.

#### Inventory

The PMA Store inventory is carried at the lower of cost or market using the weighted average method.

# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2015 and 2014

### **Contributions**

Unconditional promises to give, also known as pledges, are recorded as bequests or contributions receivable when the pledge is made. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. There were no conditional promises to give at January 31, 2015 and 2014.

Contributions of assets other than cash are recorded at their estimated fair value on the date received. Contributions and bequests to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor restrictions, if any. Management estimates an allowance for uncollectible contributions receivable based on past collection history.

The PMA reports donations of cash and other assets that must be used to acquire long-lived assets as temporarily restricted support. Absent explicit donor stipulations about how these long-lived assets must be maintained, the PMA reports expirations of donor restrictions when the long-lived assets are acquired or donated long-lived assets are placed in service.

### **Beneficial Interests in Charitable Gift Annuities**

The PMA has been granted beneficial interests in charitable gift annuities held by outside trustees. Under the charitable gift annuity agreements, the donor receives payments until death while the PMA retains beneficial interests in remaining assets. The fair value of beneficial interests is determined using the present value of expected future cash flows, net of estimated annuity payments calculated based on actuarial assumptions. The gift amount, net of any change in value as determined annually, is included with temporarily restricted contributions in the statement of activities.

### **Investments**

Investments in equity and debt securities with readily determinable fair values are measured at fair value in the balance sheet based on quoted market prices. Other investments, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by the investment managers. The PMA reviews and evaluates the valuations provided by the investment managers and believes that these valuations are a reasonable estimate of fair value at January 31, 2015 and 2014, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

Funds have been pooled for investment purposes. Income received and realized and unrealized gains and losses are apportioned to the participating funds based on their respective units in the pool, and then apportioned to appropriate net asset categories according to donor restrictions. The units held by each fund are determined using fair value.



# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2015 and 2014

### **Art Collection Description (Unaudited)**

The PMA's collection comprises more than 18,000 objects, representing fine and decorative arts from the 18th century to the present. These holdings include paintings, sculpture, prints, photographs, glass, ceramics, furniture, silver, artists' books and other media. Works by George Bellows, Sir Anthony Caro, Frederic Church, Stuart Davis, John Haberle, William Harnett, Marsden Hartley, Childe Hassam, Winslow Homer, Edward Hopper, Rockwell Kent, Fitz-Henry Lane, Thomas Moran, Louise Nevelson, John Frederick Peto, Maurice Prendergast, John Singer Sargent, and Andrew Wyeth, among others, showcase the unique artistic heritage of the United States and the creative culture of Maine. European traditions are represented by works from the hand of Max Beckmann, Marc Chagall, Gustave Courbet, Edgar Degas, Jean-Auguste-Dominique Ingres, Claude Monet, Henry Matisse, and Pierre-Auguste Renoir. PMA is accredited by the American Association of Museums and adheres to best practices in developing and managing these works of art in the public trust.

### **Art Collection Policies**

The art collection is reflected in the plant fund at a nominal value. The cost of a collection item is recorded as a decrease in net assets when purchased. The proceeds from the sale of a collection item are recorded as an increase in net assets when sold.

The collection is managed according to a policy which adheres to the standards of the American Association of Museums. The policy delineates responsibilities in such matters as museum ethics, acquisitions, loans, care of collections, and deaccessioning. Objects held in the collection are carefully tracked and monitored. The PMA's deaccessioning policy allows for sale or trade of an object only when it is incompatible with the PMA's collecting mission and when clear and complete title to the work is confirmed. Proceeds from the sale of an object may only be applied toward collection acquisitions.

### **Land, Buildings and Equipment**

Land, buildings and equipment are stated at historical cost on the date acquired. Buildings and equipment are depreciated using the straight-line method over their estimated useful lives.

The principal structures that comprise the PMA complex, including the historic McLellan House (1800-1801), the Charles Quincy Clapp House (1832), the L. D. M. Sweat Memorial Galleries (1911) designed by John Calvin Stevens, the award-winning Charles Shipman Payson building (1983) designed by I.M. Pei & Partners, and the Winslow Homer Studio (1884), are all valued parts of the museum and together offer a survey of the history of American architecture and the evolution of American museum spaces.

### **Land Held for Future Use**

Land held for future use is stated at historical cost on the date acquired or improved.

# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2015 and 2014

### **Functional Allocation of Expenses**

The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Volunteer Services**

Volunteers work directly with professional staff to further the PMA's mission. Volunteer positions include Docents, Visitor Experience Volunteers, Office Support, Curatorial Research Interns, PMA Store Assistants, Fundraising Event Volunteers, and Public Relations Interns. The value of such services has not been recorded in the financial statements.

### **Income Taxes**

The PMA is a not-for-profit corporation as described in §501(c)(3) of the Internal Revenue Code (the Code) and, as such, is exempt from federal income taxes. In addition, the PMA has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of §509(a) of the Code.

### **Subsequent Events**

Management has considered transactions or events occurring through June 1, 2015, which was the date that the financial statements were available to be issued.

## **2. Appreciation on Permanently Restricted Net Assets**

Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the PMA deems all investment income on permanently restricted investments to be temporarily restricted net assets until appropriated by the Board of Trustees, unless otherwise stipulated by donors.

### **Interpretation of Relevant Law**

The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In keeping with this interpretation, the PMA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2015 and 2014

In accordance with UPMIFA, the PMA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the museum and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other PMA resources
- The PMA's Investment Policy Statement

**3. Contributions and Bequest Receivable**

Contributions and bequest receivable consist of unconditional promises to give as of January 31, as follows:

	<u>2015</u>	<u>2014</u>
Contributions receivable	\$ 1,392,631	\$ 705,558
Less reserve for uncollectible pledges	<u>(34,806)</u>	<u>(34,806)</u>
Contributions receivable, net	<u>1,357,825</u>	<u>670,752</u>
Bequest receivable before discount	551,368	620,289
Less discount at 6.3%	<u>(141,907)</u>	<u>(173,693)</u>
Bequest receivable, net	<u>409,461</u>	<u>446,596</u>
	<u>\$ 1,767,286</u>	<u>\$ 1,117,348</u>

Contributions and bequest receivable are expected to be received as follows:

	<u>2015</u>	<u>2014</u>
Within one year	\$ 894,092	\$ 429,089
Between one and four years	831,863	537,289
Between five and eight years	<u>218,044</u>	<u>359,469</u>
	1,943,999	1,325,847
Less discount on bequest receivable	<u>(141,907)</u>	<u>(173,693)</u>
Less reserve for uncollectible pledges	<u>(34,806)</u>	<u>(34,806)</u>
	<u>\$ 1,767,286</u>	<u>\$ 1,117,348</u>

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2015 and 2014

4. Land, Buildings and Equipment

Following is a summary of land, buildings and equipment:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 5,568,994	\$ 3,187,571
Buildings and improvements	22,535,254	22,488,654
Equipment	<u>955,382</u>	<u>808,894</u>
	29,059,630	26,485,119
Less accumulated depreciation	<u>13,355,115</u>	<u>12,904,846</u>
	<u>\$15,704,515</u>	<u>\$13,580,273</u>

The PMA purchased the Winslow Homer Studio in January 2006. As part of the effort to protect the artistic legacy of Winslow Homer for the benefit of the general public, the PMA also purchased land adjacent to the Winslow Homer Studio property in July 2014.

5. Preservation in Progress and Land Held for Future Use

Preservation in progress consists of costs incurred for the acquisition, preservation, and use of the Charles Quincy Clapp House purchased from the Maine College of Art by the PMA in February 2008. The Clapp House was built in 1832 by Portland businessman Charles Q. Clapp and, as a beautiful example of Greek revival architecture, the building is on the National Register of Historic Places. Required preservation costs were assessed through an architectural firm as a starting point for a property use plan.

Land held for future use is the adjacent property purchased in July 2007. The PMA demolished and abated the buildings on the property and improved the lot for parking in 2009.

In March 2014, the PMA engaged an architectural firm to design a Campus Master Plan positioning the museum for future growth and development. The architectural firm conducted an exploration of the PMA facility's needs, determining potential uses of its property, and worked with museum leadership to create a vision for the campus consistent with the PMA's mission. There are no significant commitments related to the design of the campus master plan as of June 1, 2015.

The PMA has entered into agreements to further assist the museum in developing its strategic plan and establishing long-term priorities for investment in and use of the museum's campus. Agreements entered into include those with a strategic planning consultant, an environmental analysis of the PMA's historic McLellan House (1801), and architectural plans for distinct projects within the campus master plan. The PMA is also in the process of implementing a multi-year project called *Your Museum, Reimagined*, which will encompass an updated interpretation of the museum's collection, including how the collection will be presented in the galleries and how it will be accessed. *Your Museum, Reimagined* will incorporate certain immediate priorities identified by the Campus Master Plan including construction of the Peggy L. Osher Art Study and Collection Committee Conference Room, a secondary temporary exhibition space in the PMA's historic L.D.M. Sweat Memorial Galleries, creation of a new interactive learning space, and integration of the collection into the McLellan House. Commitments for these projects totaled \$315,000 at June 1, 2015. Temporarily restricted net assets to these projects at January 31, 2015 include \$858,893 of grants and contributions received and receivable.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2015 and 2014

6. Investments

Investments as of January 31 include the following carried at fair value:

	<u>2015</u>	<u>2014</u>
Invested cash equivalents	\$ 894,499	\$ 95,339
Marketable equity securities	-	2,791,306
Mutual funds	5,363,925	21,086,290
Limited liability and other closely held companies	5,005,081	-
Commingled funds	15,270,124	-
Partnership interests and fund of funds	<u>1,095,431</u>	<u>3,770,553</u>
	<u>\$ 27,629,060</u>	<u>\$ 27,743,488</u>

The permanent endowment net assets and Board designated net assets for investment are invested to maintain their real value over time after distributions pursuant to the PMA's endowment spending policy, fees, and expenses. In the selection of investments, expected total return, defined as capital appreciation plus income, is prioritized over current yield. The PMA seeks to achieve its return objectives while controlling risk through diversification among asset classes and securities that form a blended portfolio which is expected to exhibit lower volatility than its constituent investments and broader equity market indexes.

As of January 31, 2015, investments in real asset limited partnerships were not marketable from one to eight years and the PMA was committed to invest an additional \$247,500 in these limited partnerships. Management expects the commitment to be funded through investment rebalancing.

Under the PMA's endowment spending policy, the amount of the endowment withdrawn for current expenses, ("Annual Payout Amount"), for each fiscal year will be determined by multiplying the distribution rate by the average market value of the fund over a defined period of time. The Annual Payout Amount will be appropriated at the beginning of each fiscal year by vote of the PMA's Board of Trustees. The 2015 distribution rates ranged from 4.8% to 5.7%. The 2014 distribution rates ranged from 4.9% to 5.8%. Per the Spending Policy section of the Investment Policy Statement, the distribution rate is to be reduced by .1% per year for five years until the distribution rate ranges from 4.5% to 5.4%.

Investments by class of net assets are as follows:

	<u>2015</u>	<u>2014</u>
Unrestricted	\$ 3,618,396	\$ 4,150,408
Temporarily restricted	775,178	713,337
Permanently restricted	<u>23,235,486</u>	<u>22,879,743</u>
	<u>\$ 27,629,060</u>	<u>\$ 27,743,488</u>

**PORTLAND MUSEUM OF ART**

**Notes to Financial Statements**

**January 31, 2015 and 2014**

Changes in endowment net assets for the year ended January 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,150,408	\$ 713,337	\$ 22,879,743	\$ 27,743,488
Contributions and other amounts invested	209,575	-	355,743	565,318
Investment return				
Investment income, net of \$124,985 in fees	51,079	331,672	-	382,751
Realized gains on investments	450,070	2,847,725	-	3,297,795
Net depreciation of investments	<u>(463,139)</u>	<u>(1,774,218)</u>	<u>179,363</u>	<u>(2,057,994)</u>
Total investment return	38,010	1,405,179	179,363	1,622,552
Appropriation of endowment assets for expenditure	(958,956)	(1,343,342)	-	(2,302,298)
Restore prior transfer to offset underwater endowments	<u>179,363</u>	<u>-</u>	<u>(179,363)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 3,618,400</u>	<u>\$ 775,174</u>	<u>\$ 23,235,486</u>	<u>\$ 27,629,060</u>

Changes in endowment net assets for the year ended January 31, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,020,059	\$ 556,606	\$ 22,341,317	\$ 26,917,982
Contributions and other amounts invested	6,740	-	538,426	545,166
Investment return				
Investment income, net of \$91,721 in fees	74,916	394,029	-	468,945
Realized gains on investments	134,948	726,990	-	861,938
Net appreciation of investments	<u>146,825</u>	<u>405,078</u>	<u>329,037</u>	<u>880,940</u>
Total investment return	356,689	1,526,097	329,037	2,211,823
Appropriation of endowment assets for expenditure	(562,117)	(1,369,366)	-	(1,931,483)
Restore prior transfer to offset underwater endowments	<u>329,037</u>	<u>-</u>	<u>(329,037)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 4,150,408</u>	<u>\$ 713,337</u>	<u>\$ 22,879,743</u>	<u>\$ 27,743,488</u>

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7. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets measured at fair value on a recurring basis are summarized below.

	<u>Fair Value Measurements at January 31, 2015</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Cash equivalent investments				
Money market funds	\$ 894,499	\$ 894,499	\$ -	\$ -
Mutual funds				
Long-term capital appreciation	2,588,817	2,588,817	-	-
Real assets	2,615,690	2,615,690	-	-
Fixed income	159,418	159,418	-	-
Limited liability and other closely held companies	5,005,081	-	-	5,005,081
Commingled funds	15,270,124	-	15,270,124	-
Partnership interests				
Real assets	<u>1,095,431</u>	<u>-</u>	<u>-</u>	<u>1,095,431</u>
	<u>\$27,629,060</u>	<u>\$ 6,258,424</u>	<u>\$15,270,124</u>	<u>\$ 6,100,512</u>
Beneficial interest in charitable gift annuity	<u>\$ 440,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 440,190</u>

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	Fair Value Measurements at January 31, 2014			
	Total	Level 1	Level 2	Level 3
Investments				
Cash equivalent investments				
Money market funds	\$ 95,339	\$ 95,339	\$ -	\$ -
Marketable equity securities	2,791,306	2,791,306	-	-
Mutual funds				
Long-term capital appreciation	20,513,153	-	20,513,153	-
Real assets	420,356	-	420,356	-
Fixed income	152,781	152,781	-	-
Partnership interests and fund of funds				
Long-term capital appreciation	2,533,149	-	2,533,149	-
Real assets	<u>1,237,404</u>	<u>-</u>	<u>-</u>	<u>1,237,404</u>
	<u>\$27,743,488</u>	<u>\$ 3,039,426</u>	<u>\$23,466,658</u>	<u>\$1,237,404</u>
Beneficial interest in charitable gift annuity	<u>\$ 440,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 440,190</u>

Investments in general are exposed to various risks, such as interest rates, credit, and overall market volatility. As such, it is reasonably possible that changes could materially affect the amounts reported in the balance sheets and statements of activities.

The fair value of commingled funds is based primarily on quoted market prices of the assets held by the funds which are readily redeemable. Other Level 2 investments are valued based on quoted prices for similar assets. Level 3 investments are valued based on the net asset values as reported in the financial statements of the related interest. Management believes that techniques used to value investments are not an indicator of their liquidity.

Significant 2015 activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Limited Liability and Other Closely Held Companies	Real Asset Partnership Interests	Beneficial Interest in Charitable Gift Annuities
Level 3 balance at February 1, 2014	\$ -	\$ 1,237,404	\$ 440,190
Additions	4,950,000	40,000	-
Change in value	55,081	126,517	-
Withdrawals	-	(308,490)	-
Level 3 balance at January 31, 2015	<u>\$ 5,005,081</u>	<u>\$ 1,095,431</u>	<u>\$ 440,190</u>
Unrealized appreciation from Level 3 investments still held as of January 31	<u>\$ 55,081</u>	<u>\$ 195,928</u>	<u>\$ -</u>



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Significant 2014 activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Real Asset Partnership Interests	Beneficial Interest in Charitable Gift Annuities
Level 3 balance at February 1, 2013	\$ 1,370,674	\$ 440,190
Additions	65,000	-
Change in value	140,042	-
Withdrawals	<u>(338,312)</u>	<u>-</u>
Level 3 balance at January 31, 2014	<u>\$ 1,237,404</u>	<u>\$ 440,190</u>
Unrealized depreciation from Level 3 investments still held as of January 31	<u>\$ 22,705</u>	<u>\$ -</u>

8. **Borrowings**

The PMA has available a \$1,000,000 working capital bank line of credit with interest at LIBOR plus 2.0% (2.17% at January 31, 2015), collateralized by investments. Total advances outstanding under the line were \$62,000 and \$195,000 at January 31, 2015 and 2014, respectively.

The PMA also has available another \$1,000,000 line of credit for capital asset purchases with interest at LIBOR plus 2.0% (2.17% at January 31, 2015), collateralized by investments. Total advances outstanding under the line were \$790,000 at January 31, 2015. There were no advances outstanding at January 31, 2014 on this line.

The long-term note payable to the bank is due in monthly installments of \$1,258, including interest at 3.9%, through November 2019. The note is collateralized by certain equipment.

Approximate maturities of long-term debt are as follows:

2015	\$ 12,700
2016	13,200
2017	13,800
2018	14,300
2019	<u>12,282</u>
	<u>\$ 66,282</u>

Interest expense and cash paid for interest during the years ended January 31, 2015 and 2014 totaled \$19,453 and \$4,977, respectively.

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9. Unrestricted Net Assets

Unrestricted net assets are as follows:

	<u>2015</u>	<u>2014</u>
Net investment in capital assets	\$ 15,637,423	\$ 14,086,210
Board designated for capital and special projects	38,672	89,438
Board designated for investment	3,618,396	4,150,408
Investment in land held for future use	3,016,815	3,016,815
Other (deficit)	<u>(705,950)</u>	<u>(384,898)</u>
	<u>\$ 21,605,356</u>	<u>\$ 20,957,973</u>

10. Temporarily Restricted Net Assets

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

	<u>Currently Available</u>	<u>Income in Excess of Spending Policy</u>	<u>Life Income Funds</u>	<u>Amounts Receivable in Future Periods</u>	<u>Total</u>
<u>2015</u>					
Education	\$ 17,410	\$ 209,039	\$ -	\$ -	\$ 226,449
Maintenance of collection and building	346,617	155,684	-	1,403,371	1,905,672
Acquisition of art for the collection	129,016	251,037	-	38,334	418,387
Other restricted purposes	<u>116,677</u>	<u>-</u>	<u>159,418</u>	<u>414,009</u>	<u>690,104</u>
	<u>\$ 609,720</u>	<u>\$ 615,760</u>	<u>\$ 159,418</u>	<u>\$ 1,855,714</u>	<u>\$ 3,240,612</u>
<u>2014</u>					
Education	\$ 29,851	\$ 188,446	\$ -	\$ -	\$ 218,297
Maintenance of collection and building	82,385	130,083	-	532,059	744,527
Acquisition of art for the collection	131,525	242,027	-	-	373,552
Other restricted purposes	<u>164,881</u>	<u>-</u>	<u>152,781</u>	<u>451,143</u>	<u>768,805</u>
	<u>\$ 408,642</u>	<u>\$ 560,556</u>	<u>\$ 152,781</u>	<u>\$ 983,202</u>	<u>\$ 2,105,181</u>

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**11. Permanently Restricted Net Assets**

At January 31, the PMA's permanently restricted net assets consist of endowment funds from which income is expendable to support the following:

	<u>2015</u>	<u>2014</u>
General operations, including \$73,089 and \$154,229 in contributions receivable at January 31, 2015 and 2014, respectively, and \$21,053 in uninvested cash at January 31, 2015	\$ 14,991,489	\$ 14,991,079
Education, including \$278,672 and \$420,107 in contributions receivable at January 31, 2015 and 2014, respectively	3,151,884	3,149,771
Maintenance of collection and buildings	3,282,096	3,182,096
Acquisition of art for the collection	722,289	720,592
Wages and related expenses	1,240,328	1,190,328
Other	<u>220,214</u>	<u>220,214</u>
	<u>\$ 23,608,300</u>	<u>\$ 23,454,080</u>

Permanently restricted investments with restrictions on income earned reflected net losses of \$159,158 and \$338,521 at January 31, 2015 and 2014, respectively, which were applied against unrestricted net assets. Future increases in market value will first restore unrestricted net assets to the extent of the prior cumulative loss recognized.

**12. Revenues Reported Net of Expenses**

Revenue from certain sources is reported net of expenses in the statement of activities. Gross revenue and expenses from these sources are as follows:

	<u>Gross Revenue</u>	<u>Direct Expenses</u>	<u>Allocated Expenses</u>	<u>Net Revenue (Expense)</u>
<u>2015</u>				
PMA Store and facility use	\$ 470,023	\$ 395,486	\$ 167,234	\$ (92,697)
Special events	82,650	29,493	-	53,157
<u>2014</u>				
PMA Store and facility use	\$ 499,435	\$ 462,677	\$ 161,242	\$ (124,484)
Special events	95,050	32,020	-	63,030

**13. Defined Contribution Retirement Plan**

The PMA has a 403(b) Plan (the Plan). All employees that work more than 1,000 hours during the Plan year are eligible to participate. Under the Plan, the PMA may make discretionary match contributions. During the years ended January 31, 2015 and 2014, the PMA contributed \$35,257 and \$41,846 to the Plan.

