



PORTLAND MUSEUM *of* ART

FINANCIAL STATEMENTS

January 31, 2018 and 2017

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 (the PMA), which comprise the balance sheets as of January 31, 2018 and 2017, 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 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 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, 2018 and 2017, 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.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
May 24, 2018

PORTLAND MUSEUM OF ART

Balance Sheets

January 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 211,501	\$ 182,799
Accounts receivable	178,522	101,325
Inventory, at cost	167,066	180,143
Prepaid expenses	258,016	384,340
Contributions receivable, net	747,093	1,148,926
Bequest receivable, net	281,528	327,124
Art collection (Note 1)	1	1
Land, buildings and equipment, net	15,903,202	16,112,528
Preservation in progress	871,789	847,355
Land held for future use	3,016,815	3,016,815
Investments	<u>38,390,638</u>	<u>31,933,216</u>
Total assets	<u>\$ 60,026,171</u>	<u>\$ 54,234,572</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 296,720	\$ 648,741
Lines of credit	-	509,000
Long-term note payable to bank	<u>26,524</u>	<u>40,297</u>
Total liabilities	<u>323,244</u>	<u>1,198,038</u>
Net assets		
Unrestricted	23,513,117	21,381,335
Temporarily restricted	3,326,931	1,746,437
Permanently restricted	<u>32,862,879</u>	<u>29,908,762</u>
Total net assets	<u>59,702,927</u>	<u>53,036,534</u>
Total liabilities and net assets	<u>\$ 60,026,171</u>	<u>\$ 54,234,572</u>

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

PORTLAND MUSEUM OF ART

Statements of Activities

Years Ended January 31, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets								
Public support and revenues								
Contributions and grants	\$ 3,624,840	\$ 715,942	\$ 2,954,117	\$ 7,294,899	\$ 2,163,576	\$ 1,040,760	\$ 6,216,024	\$ 9,420,360
Memberships	682,879	-	-	682,879	645,278	-	-	645,278
Admissions	516,476	-	-	516,476	522,371	-	-	522,371
Program revenues	219,069	96,740	-	315,809	161,733	1,730	-	163,463
PMA Store revenues	376,462	-	-	376,462	433,351	-	-	433,351
Return on investments	277,390	3,784,347	910,537	4,972,274	125,969	1,511,104	1,185,179	2,822,252
Total public support and revenues	<u>5,697,116</u>	<u>4,597,029</u>	<u>3,864,654</u>	<u>14,158,799</u>	<u>4,052,278</u>	<u>2,553,594</u>	<u>7,401,203</u>	<u>14,007,075</u>
Net assets released from restrictions								
Satisfaction of program or capital asset purchase restrictions	1,674,830	(1,674,830)	-	-	2,664,305	(2,664,305)	-	-
Expiration of time restrictions	45,596	(45,596)	-	-	42,577	(42,577)	-	-
Restricted earnings transferred by spending policy for operations	1,296,109	(1,296,109)	-	-	1,100,957	(1,100,957)	-	-
Total net assets released from restrictions	<u>3,016,535</u>	<u>(3,016,535)</u>	<u>-</u>	<u>-</u>	<u>3,807,839</u>	<u>(3,807,839)</u>	<u>-</u>	<u>-</u>
Transfers related to changes in permanently restricted corpus deficit	910,537	-	(910,537)	-	1,185,179	-	(1,185,179)	-
Total revenues (losses) and transfers	<u>9,624,188</u>	<u>1,580,494</u>	<u>2,954,117</u>	<u>14,158,799</u>	<u>9,045,296</u>	<u>(1,254,245)</u>	<u>6,216,024</u>	<u>14,007,075</u>
Expenses								
Program								
Exhibits and collections	3,624,293	-	-	3,624,293	3,407,596	-	-	3,407,596
Education	831,728	-	-	831,728	904,288	-	-	904,288
Collection items purchased	574,533	-	-	574,533	111,522	-	-	111,522
PMA Store	474,859	-	-	474,859	526,432	-	-	526,432
Management and general	576,188	-	-	576,188	561,922	-	-	561,922
Development and membership	1,410,805	-	-	1,410,805	1,360,831	-	-	1,360,831
Total expenses	<u>7,492,406</u>	<u>-</u>	<u>-</u>	<u>7,492,406</u>	<u>6,872,591</u>	<u>-</u>	<u>-</u>	<u>6,872,591</u>
Change in net assets	2,131,782	1,580,494	2,954,117	6,666,393	2,172,705	(1,254,245)	6,216,024	7,134,484
Net assets, beginning of year	21,381,335	1,746,437	29,908,762	53,036,534	19,208,630	3,000,682	23,692,738	45,902,050
Net assets, end of year	<u>\$ 23,513,117</u>	<u>\$ 3,326,931</u>	<u>\$ 32,862,879</u>	<u>\$ 59,702,927</u>	<u>\$ 21,381,335</u>	<u>\$ 1,746,437</u>	<u>\$ 29,908,762</u>	<u>\$ 53,036,534</u>

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

PORTLAND MUSEUM OF ART

Statements of Cash Flows

Years Ended January 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 6,666,393	\$ 7,134,484
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	537,352	514,829
Loss on disposal of equipment	-	695
Net realized and unrealized gains on investments	(4,974,591)	(2,890,608)
Permanently restricted contributions	(2,954,117)	(6,216,024)
Contributions restricted for acquisition and preservation, investment or collection	(699,007)	(94,356)
Collection items sold	(60,000)	-
Collection items purchased	574,533	111,522
Proceeds from beneficial interest in charitable gift annuity	-	435,642
(Increase) decrease in		
Accounts receivable	(17,197)	(52,293)
Inventories	13,077	(30,149)
Prepaid expenses	126,324	(188,177)
Bequest receivable	45,596	42,577
(Decrease) increase in operating accounts payable and accrued expenses	<u>(223,745)</u>	<u>120,108</u>
Net cash used by operating activities	<u>(965,382)</u>	<u>(1,111,750)</u>
Cash flows from investing activities		
Acquisition of equipment and improvements and payments for preservation	(551,569)	(593,801)
Payments for purchase of collection items	(503,700)	(211,522)
Proceeds from sale of investments	2,314,123	13,758,987
Purchases of investments	<u>(3,796,954)</u>	<u>(18,056,982)</u>
Net cash used by investing activities	<u>(2,538,100)</u>	<u>(5,103,318)</u>
Cash flows from financing activities		
Proceeds from permanently restricted contributions	2,996,625	5,671,007
Proceeds from contributions restricted for acquisition and preservation, investment or collection	1,058,332	572,642
Repayment of borrowings on lines of credit, net	(509,000)	(57,000)
Principal payments on long-term debt	<u>(13,773)</u>	<u>(13,246)</u>
Net cash provided by financing activities	<u>3,532,184</u>	<u>6,173,403</u>
Net increase (decrease) in cash and cash equivalents	28,702	(41,665)
Cash and cash equivalents, beginning of year	<u>182,799</u>	<u>224,464</u>
Cash and cash equivalents, end of year	<u>\$ 211,501</u>	<u>\$ 182,799</u>
Supplemental disclosures		
Noncash investing transactions:		
Acquisition and preservation in progress reported as accounts payable	\$ -	\$ 199,109
Collection item sales reported in accounts receivable	<u>\$ 60,000</u>	<u>\$ -</u>
Collection purchases reported in accounts payable	<u>\$ 70,833</u>	<u>\$ -</u>

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

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2018 and 2017

Nature of Organization

The Portland Museum of Art (the PMA), 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 engage audiences in a dialogue about the relevance of art and culture to our everyday lives and is committed to the stewardship and growth of the collection.

Vision Statement

The Portland Museum of Art is an institution steeped in rich cultural history and alert to the opportunities of the future. Our collection guides our exhibitions and educational programs and gives shape to our institutional identity. As a vibrant art institution in the heart of a great American city, we also maintain a steadfast commitment to our community and to our region. The PMA audiences can experience the richness of Maine's artistic legacy and our region's cultural history, while enlarging their worlds through bridges that extend beyond the borders of Maine and New England. We believe that art can help us understand the vital relationship between the local and the global, and can anchor us as we seek to interpret the most pressing issues of our time.

Across every department, our work at the PMA is informed by our respect for artwork and art makers; by our high level of attention to the complexity of art and history; and by our engagement with our audiences and community, in the past, present, and future.

As one of the preeminent cultural institutions in Northern New England, the PMA aspires to reach these goals by 2021:

- To offer a model of excellence to all of our patrons, welcoming them, delighting them, and creating new learning opportunities on every visit;
- To expand the possibilities for what an art museum can be in the 21st century, serving as a modern public forum as well as a place to engage with history;
- To be a leader in the growth and vibrancy of Portland's urban and cultural transformation, including the revitalization of the Congress Square neighborhood; and,
- To be one of the most sought-after quintessential Maine experiences, and an institution worthy of the continued support and commitment of its community.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2018 and 2017

1. Summary of Significant Accounting Policies

Financial Statement Presentation

The Portland Museum of Art 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-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 net realizable value using the weighted average method.

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. Conditional promises to give at January 31, 2017 totaled \$1,000,000. There were no conditional promises to give at January 31, 2018.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2018 and 2017

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.

Investments

Investments in mutual funds are measured at fair value in the balance sheets based on quoted market prices. Commingled fund investments are valued based on quoted market prices of the assets held by the funds. Values of investments in limited liability and closely-held companies and partnerships are based on net asset values per share of the respective funds as reported in the financial statements of the related interest provided by the investment managers. The PMA reviews and evaluates the valuations provided by the investment managers and believes the net asset values are reasonable estimates of fair value at January 31, 2018 and 2017, 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 and net asset values.

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, and Pierre-Auguste Renoir. The 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.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2018 and 2017

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 sales of collection items are recorded as increases 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.

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, Homer Studio Tour Guides, Visitor Experience Volunteers, and volunteers in the Curatorial, Learning and Interpretation, Philanthropy, Communications and Registration departments. The total number of volunteer hours approximated 2,366 and 3,978 in 2018 and 2017, respectively. The value of such services has not been recorded in the financial statements.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2018 and 2017

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 May 24, 2018, 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.

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

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2018 and 2017

3. Contributions and Bequest Receivable

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

	<u>2018</u>	<u>2017</u>
Contributions receivable	\$ 747,093	\$ 1,150,363
Less reserve for uncollectible pledges	<u>-</u>	<u>(1,437)</u>
Contributions receivable, net	<u>747,093</u>	<u>1,148,926</u>
Bequest receivable before discount	344,605	413,526
Less discount at 7.1%	<u>(63,077)</u>	<u>(86,402)</u>
Bequest receivable, net	<u>281,528</u>	<u>327,124</u>
	<u>\$ 1,028,621</u>	<u>\$ 1,476,050</u>

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

	<u>2018</u>	<u>2017</u>
Within one year	\$ 426,814	\$ 742,768
Between one and four years	536,806	733,875
Five years	<u>128,078</u>	<u>87,246</u>
	1,091,698	1,563,889
Less discount on bequest receivable	(63,077)	(86,402)
Less reserve for uncollectible pledges	<u>-</u>	<u>(1,437)</u>
	<u>\$ 1,028,621</u>	<u>\$ 1,476,050</u>

4. Land, Buildings and Equipment

Following is a summary of land, buildings and equipment:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 5,623,932	\$ 5,623,932
Buildings and improvements	24,139,772	23,845,123
Equipment	<u>842,802</u>	<u>841,218</u>
	30,606,506	30,310,273
Less accumulated depreciation	<u>14,703,304</u>	<u>14,197,745</u>
	<u>\$ 15,903,202</u>	<u>\$ 16,112,528</u>

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2018 and 2017

5. Preservation in Progress and Land Held for Future Use

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

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.

The PMA has completed a multiyear project under the Campus Master Plan called *Your Museum, Reimagined*, which encompasses an updated interpretation of the Museum's collection and fundamentally changes the way audiences experience the PMA. This project, which opened to the public February 2017, included reinstalling the collection in the galleries and providing new ways for the collection to be accessed. *Your Museum, Reimagined* incorporated immediate priorities identified by the Campus Master Plan, including construction of the Peggy L. Osher Art Study and Collection Committee Conference Room, a temporary exhibition space in the PMA's historic L.D.M. Sweat Memorial Galleries, an interactive learning space called The Workshop, and the Konkel Family Welcome Center, in addition to new internal and external wayfinding packages and the integration of the collection into the McLellan House.

Another goal identified by the Campus Master Plan was to expand the use of outdoor spaces and develop a sculpture garden. The PMA completed the process of making the Joan B. Burns Garden into an outdoor sculpture park available for the entire Portland community to enjoy and explore. The David E. Shaw and Family Sculpture Park (the Park) opened in July 2017, is accessible to all through a gate on High Street, and is free to the public. The sculpture *Spirit of the Dance*, by William Zorach, was acquired by the PMA in May 2017 and will be installed in the Park in July 2018.

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.

6. Investments

Investments as of January 31 include the following carried at fair and net asset values:

	<u>2018</u>	<u>2017</u>
Invested cash equivalents	\$ 1,169,186	\$ 4,678,654
Mutual funds	6,494,491	4,910,306
Limited liability and other closely-held companies	16,627,490	11,914,552
Commingled funds	13,704,040	9,933,613
Partnership interests and fund of funds	<u>395,431</u>	<u>496,091</u>
	<u>\$ 38,390,638</u>	<u>\$ 31,933,216</u>

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Notes to Financial Statements

January 31, 2018 and 2017

As of January 31, 2018, the PMA was committed to invest an additional \$214,000 in the partnership and the fund of funds. Management expects the commitment to be funded through investment rebalancing. The original partnership terms were scheduled to end in 2014 and 2022 and are subject to extensions. The timing and amount of capital distributions in any future year is uncertain.

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.

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 2018 distribution rates were 4.5% or 5.4% depending on the fund. The 2017 distribution rates were 4.6% or 5.5% depending on the fund. 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%.

Through January 2027 certain permanent endowment net assets (\$5,435,116 at January 31, 2018) are subject to a donor-imposed spending limitation based on investment return during each fiscal year. If investment return is 4.5% or more, spending is limited to 4.5%; if return is 2.0% to 4.5%, spending is limited to the actual investment return; and, if return is less than 2%, spending is limited to 2% provided the corpus (\$5,000,000 at January 31, 2018) is not temporarily decreased by more than 10%.

Investments by class of net assets are as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted	\$ 3,635,599	\$ 2,413,939
Temporarily restricted	2,575,898	337,250
Permanently restricted	<u>32,179,141</u>	<u>29,182,027</u>
	<u>\$ 38,390,638</u>	<u>\$ 31,933,216</u>

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Notes to Financial Statements

January 31, 2018 and 2017

Changes in invested endowment net assets for the year ended January 31, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,413,939	\$ 337,250	\$ 29,182,027	\$ 31,933,216
Contributions and other amounts invested	208,018	-	2,997,114	3,205,132
Investment return				
Investment income (loss), net of \$178,965 in fees	1,915	(4,232)	-	(2,317)
Realized gains on investments	37,762	353,287	-	391,049
Net appreciation of investments	<u>237,713</u>	<u>3,435,292</u>	<u>910,537</u>	<u>4,583,542</u>
Total investment return	277,390	3,784,347	910,537	4,972,274
Appropriation of endowment assets for expenditure under spending policy or expiration of restrictions	(174,285)	(1,545,699)	-	(1,719,984)
Restore prior transfer to offset underwater endowments	<u>910,537</u>	-	<u>(910,537)</u>	-
Endowment net assets, end of year	<u>\$ 3,635,599</u>	<u>\$ 2,575,898</u>	<u>\$ 32,179,141</u>	<u>\$ 38,390,638</u>

Changes in invested endowment net assets for the year ended January 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,075,170	\$ 160,165	\$ 23,509,278	\$ 24,744,613
Contributions and other amounts invested	208,410	-	5,672,749	5,881,159
Investment return				
Investment loss, net of \$187,936 in fees	(5,952)	(62,404)	-	(68,356)
Realized gains on investments	22,000	162,663	-	184,663
Net appreciation of investments	<u>109,921</u>	<u>1,410,845</u>	<u>1,185,179</u>	<u>2,705,945</u>
Total investment return	125,969	1,511,104	1,185,179	2,822,252
Appropriation of endowment assets for expenditure under spending policy or expiration of restrictions	(180,789)	(1,334,019)	-	(1,514,808)
Restore prior transfer to offset underwater endowments	<u>1,185,179</u>	-	<u>(1,185,179)</u>	-
Endowment net assets, end of year	<u>\$ 2,413,939</u>	<u>\$ 337,250</u>	<u>\$ 29,182,027</u>	<u>\$ 31,933,216</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.

Pursuant to Financial Accounting Standards Board Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, fair value information by level has not been presented for certain investments valued at the net asset value per share reported by the investment manager.

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

	<u>Fair Value Measurements at January 31, 2018</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Cash equivalent investments				
Money market funds	\$ 1,169,186	\$ 1,169,186	\$ -	\$ -
Mutual funds				
Long-term capital appreciation	6,494,491	6,494,491	-	-
Commingled funds	<u>13,704,040</u>	<u>-</u>	<u>13,704,040</u>	<u>-</u>
	<u>21,367,717</u>	<u>\$ 7,663,677</u>	<u>\$ 13,704,040</u>	<u>\$ -</u>
Investments at net asset value	<u>17,022,921</u>			
 Total investments	 <u>\$ 38,390,638</u>			

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	<u>Fair Value Measurements at January 31, 2017</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Cash equivalent investments				
Money market funds	\$ 4,678,654	\$ 4,678,654	\$ -	\$ -
Mutual funds				
Long-term capital appreciation	4,910,306	4,910,306	-	-
Commingled funds	<u>9,933,613</u>	<u>-</u>	<u>9,933,613</u>	<u>-</u>
	19,522,573	<u>\$ 9,588,960</u>	<u>\$ 9,933,613</u>	<u>\$ -</u>
Investments at net asset value	<u>12,410,643</u>			
Total investments	<u>\$ 31,933,216</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.

Money market and mutual funds are valued based on quoted market prices. The fair value of commingled funds is based primarily on quoted market prices of the assets held by the funds which are readily redeemable. Management believes that techniques used to value investments are not an indicator of their liquidity.

8. Borrowings

The PMA has available a \$2,000,000 revolving term loan agreement with interest at LIBOR plus 2.0%, collateralized by a security interest in any or all deposits or other sums held by the bank. At January 31, 2018 these deposits equaled \$220,358. There were no advances outstanding at January 31, 2018.

At January 31, 2017, the PMA had available a \$1,000,000 working capital bank line of credit and \$1,000,000 line of credit for capital asset purchases. Total advances outstanding under both lines were \$509,000 at January 31, 2017. These two lines were replaced by the \$2,000,000 revolving term loan agreement.

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 for the years ending January 31:

2019	\$ 14,300
2020	<u>12,224</u>
	<u>\$ 26,524</u>

Interest expense and cash paid for interest during the years ended January 31, 2018 and 2017 totaled \$7,031 and \$28,279, respectively.

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9. Unrestricted Net Assets

Unrestricted net assets are as follows:

	<u>2018</u>	<u>2017</u>
Net investment in capital assets	\$ 16,748,467	\$ 16,720,477
Board designated for capital and special projects	43,380	63,260
Board designated for investment	3,635,599	2,413,939
Investment in land held for future use	3,016,815	3,016,815
Other (deficit)	<u>68,856</u>	<u>(833,156)</u>
	<u>\$ 23,513,117</u>	<u>\$ 21,381,335</u>

10. Temporarily Restricted Net Assets

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

	<u>Currently Available</u>	Income in Excess of Spending Policy	Amounts Receivable in Future Periods	<u>Total</u>
<u>2018</u>				
Education	\$ 36,353	\$ 414,782	\$ -	\$ 451,135
Maintenance of collection and building	105,375	624,707	18,356	748,438
Acquisition of art for the collection	156,576	303,905	-	460,481
Other restricted purposes	<u>107,846</u>	<u>1,232,504</u>	<u>326,527</u>	<u>1,666,877</u>
	<u>\$ 406,150</u>	<u>\$ 2,575,898</u>	<u>\$ 344,883</u>	<u>\$ 3,326,931</u>
 <u>2017</u>				
Education	\$ 43,797	\$ 91,781	\$ 40,000	\$ 175,578
Maintenance of collection and building	353,001	35,775	332,481	721,257
Acquisition of art for the collection	88,294	209,694	-	297,988
Other restricted purposes	<u>174,292</u>	<u>-</u>	<u>377,322</u>	<u>551,614</u>
	<u>\$ 659,384</u>	<u>\$ 337,250</u>	<u>\$ 749,803</u>	<u>\$ 1,746,437</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>2018</u>	<u>2017</u>
General operations, including \$683,738 and \$726,048 in contributions receivable at January 31, 2018 and 2017, respectively, and \$187 in uninvested cash at January 31, 2017	\$ 23,956,596	\$ 21,105,626
Education, including \$500 in contributions receivable at January 31, 2017	3,163,983	3,162,621
Maintenance of collection and buildings	3,450,934	3,400,934
Acquisition of art for the collection	730,139	729,039
Wages and related expenses	1,315,328	1,290,328
Other	<u>245,899</u>	<u>220,214</u>
	<u>\$ 32,862,879</u>	<u>\$ 29,908,762</u>

Permanently restricted investments with restrictions on income earned reflected net losses of \$910,537 at January 31, 2017, which were applied against unrestricted net assets. At January 31, 2018, the values of permanently restricted investments were fully restored to corpus levels.

12. 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, 2018 and 2017, the PMA contributed \$40,666 and \$34,147 to the Plan, respectively.