



PORTLAND MUSEUM *of* ART

**FINANCIAL STATEMENTS**

January 31, 2019 and 2018

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, 2019 and 2018, and the related statements of activities, functional expenses 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, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### Other Matter

As discussed in Note 1 to the financial statements, in 2019 the PMA adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). Our opinion is not modified with respect to this matter.

*BerryDunn McNeil & Parker, LLC*

Portland, Maine  
June 11, 2019

PORTLAND MUSEUM OF ART

Balance Sheets

January 31, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,924,613	\$ 211,501
Accounts receivable	256,505	178,522
Inventory, at cost	133,083	167,066
Prepaid expenses	342,035	258,016
Contributions receivable	1,690,644	747,093
Bequest receivable, net	232,693	281,528
Art collection (Note 1)	1	1
Land, buildings and equipment, net	15,674,953	15,903,202
Preservation in progress	883,366	871,789
Land held for future use	3,016,815	3,016,815
Investments	<u>37,580,222</u>	<u>38,390,638</u>
Total assets	<u>\$ 61,734,930</u>	<u>\$ 60,026,171</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 474,215	\$ 296,720
Long-term note payable to bank	<u>12,205</u>	<u>26,524</u>
Total liabilities	<u>486,420</u>	<u>323,244</u>
Net assets		
Without donor restrictions	<u>22,695,067</u>	<u>23,513,117</u>
With donor restrictions		
Temporary in nature	2,430,663	3,326,931
Perpetual in nature	<u>36,122,780</u>	<u>32,862,879</u>
Total net assets with donor restrictions	<u>38,553,443</u>	<u>36,189,810</u>
Total net assets	<u>61,248,510</u>	<u>59,702,927</u>
Total liabilities and net assets	<u>\$ 61,734,930</u>	<u>\$ 60,026,171</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, 2019 and 2018

	2019				2018			
	Without Donor Restrictions	With Donor Restrictions Temporary in Nature	Perpetual in Nature	Total	Without Donor Restrictions	With Donor Restrictions Temporary in Nature	Perpetual in Nature	Total
Changes in net assets								
Public support and revenues (losses)								
Contributions and grants	\$ 3,169,140	\$ 1,349,818	\$ 3,259,901	\$ 7,778,859	\$ 3,624,840	\$ 715,942	\$ 2,954,117	\$ 7,294,899
Memberships	640,381	-	-	640,381	682,879	-	-	682,879
Admissions	569,365	-	-	569,365	516,476	-	-	516,476
Program and deaccessioning revenues	317,527	1,379,677	-	1,697,204	219,069	96,740	-	315,809
PMA Store revenues	495,992	-	-	495,992	376,462	-	-	376,462
(Loss) return on investments	(585,948)	(1,571,527)	-	(2,157,475)	1,187,927	3,784,347	-	4,972,274
Total public support and revenues, net of losses	<u>4,606,457</u>	<u>1,157,968</u>	<u>3,259,901</u>	<u>9,024,326</u>	<u>6,607,653</u>	<u>4,597,029</u>	<u>2,954,117</u>	<u>14,158,799</u>
Net assets released from restrictions								
Satisfaction of program or capital asset purchase restrictions	726,094	(726,094)	-	-	1,674,830	(1,674,830)	-	-
Expiration of time restrictions	48,835	(48,835)	-	-	45,596	(45,596)	-	-
Restricted earnings transferred by spending policy for operations	<u>1,279,307</u>	<u>(1,279,307)</u>	<u>-</u>	<u>-</u>	<u>1,296,109</u>	<u>(1,296,109)</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>2,054,236</u>	<u>(2,054,236)</u>	<u>-</u>	<u>-</u>	<u>3,016,535</u>	<u>(3,016,535)</u>	<u>-</u>	<u>-</u>
Total revenues (losses), net of releases	<u>6,660,693</u>	<u>(896,268)</u>	<u>3,259,901</u>	<u>9,024,326</u>	<u>9,624,188</u>	<u>1,580,494</u>	<u>2,954,117</u>	<u>14,158,799</u>
Expenses								
Program								
Exhibits and collections	3,914,931	-	-	3,914,931	3,624,293	-	-	3,624,293
Education	1,057,181	-	-	1,057,181	831,728	-	-	831,728
Collection items purchased	148,000	-	-	148,000	574,533	-	-	574,533
PMA Store	480,860	-	-	480,860	474,859	-	-	474,859
Management and general	554,471	-	-	554,471	554,103	-	-	554,103
Development and membership	<u>1,323,300</u>	<u>-</u>	<u>-</u>	<u>1,323,300</u>	<u>1,432,890</u>	<u>-</u>	<u>-</u>	<u>1,432,890</u>
Total expenses	<u>7,478,743</u>	<u>-</u>	<u>-</u>	<u>7,478,743</u>	<u>7,492,406</u>	<u>-</u>	<u>-</u>	<u>7,492,406</u>
Change in net assets	(818,050)	(896,268)	3,259,901	1,545,583	2,131,782	1,580,494	2,954,117	6,666,393
Net assets, beginning 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>
Net assets, end of year	<u>\$ 22,695,067</u>	<u>\$ 2,430,663</u>	<u>\$ 36,122,780</u>	<u>\$ 61,248,510</u>	<u>\$ 23,513,117</u>	<u>\$ 3,326,931</u>	<u>\$ 32,862,879</u>	<u>\$ 59,702,927</u>

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

**PORTLAND MUSEUM OF ART**  
**Statement of Functional Expenses**  
**Year Ended January 31, 2019**

	<u>Program</u>				<u>Total Program</u>	<u>Management and General</u>	<u>Development and Membership</u>	<u>Total Expenses</u>
	<u>Exhibits and Collections</u>	<u>Education</u>	<u>Collection Items Purchased</u>	<u>PMA Store</u>				
Acquisition of art for the collection	\$ -	\$ -	\$ 148,000	\$ -	\$ 148,000	\$ -	\$ -	\$ 148,000
Advertising and promotion	147,913	22,447	-	1,603	171,963	-	37,423	209,386
Cost of goods sold	-	-	-	219,667	219,667	-	-	219,667
Depreciation	445,409	55,141	-	10,617	511,167	4,983	25,512	541,662
Education	-	193,562	-	-	193,562	-	-	193,562
Exhibitions and collections care	318,150	-	-	-	318,150	-	-	318,150
Fundraising and membership	-	-	-	-	-	-	280,477	280,477
Information technology	89,864	14,831	-	6,504	111,199	9,551	55,925	176,675
Insurance	91,576	8,002	-	981	100,559	3,122	2,363	106,044
Interest	-	780	-	-	780	-	-	780
Meetings and conferences	10,068	5,915	-	252	16,235	20,825	7,062	44,122
Occupancy	272,971	33,389	-	6,478	312,838	3,074	15,512	331,424
Office expenses	40,446	16,190	-	6,095	62,731	28,707	30,677	122,115
Professional fees and outside services	172,656	26,534	-	2,284	201,474	46,076	5,811	253,361
Salaries and benefits	2,295,105	580,604	-	226,202	3,101,911	430,710	859,835	4,392,456
Travel	30,773	99,786	-	177	130,736	7,423	2,703	140,862
<b>Total expenses</b>	<b><u>\$ 3,914,931</u></b>	<b><u>\$ 1,057,181</u></b>	<b><u>\$ 148,000</u></b>	<b><u>\$ 480,860</u></b>	<b><u>\$ 5,600,972</u></b>	<b><u>\$ 554,471</u></b>	<b><u>\$ 1,323,300</u></b>	<b><u>\$ 7,478,743</u></b>

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

**PORTLAND MUSEUM OF ART**  
**Statement of Functional Expenses**  
**Year Ended January 31, 2018**

	<u>Program</u>				<u>Total Program</u>	<u>Management and General</u>	<u>Development and Membership</u>	<u>Total Expenses</u>
	<u>Exhibits and Collections</u>	<u>Education</u>	<u>Collection Items Purchased</u>	<u>PMA Store</u>				
Acquisition of art for the collection	\$ -	\$ -	\$ 574,533	\$ -	\$ 574,533	\$ -	\$ -	\$ 574,533
Advertising and promotion	156,543	18,046	-	5,414	180,003	-	15,990	195,993
Cost of goods sold	-	-	-	186,825	186,825	-	-	186,825
Depreciation	440,252	53,789	-	11,553	505,594	4,836	26,921	537,351
Education	-	129,577	-	-	129,577	-	-	129,577
Exhibitions and collections care	461,515	-	-	-	461,515	-	-	461,515
Fundraising and membership	-	-	-	-	-	-	348,105	348,105
Information technology	90,921	22,556	-	8,581	122,058	6,278	52,652	180,988
Insurance	85,675	8,384	-	2,005	96,064	2,983	2,297	101,344
Interest	-	1,327	-	-	1,327	5,704	-	7,031
Meetings and conferences	4,140	4,749	-	300	9,189	11,866	8,225	29,280
Occupancy	256,110	37,985	-	13,977	308,072	2,957	16,012	327,041
Office expenses	51,862	20,058	-	6,639	78,559	19,211	30,548	128,318
Professional fees and outside services	178,411	27,885	-	4,572	210,868	81,136	7,474	299,478
Salaries and benefits	1,856,342	485,635	-	234,803	2,576,780	403,592	871,676	3,852,048
Travel	<u>42,522</u>	<u>21,737</u>	<u>-</u>	<u>190</u>	<u>64,449</u>	<u>15,540</u>	<u>52,990</u>	<u>132,979</u>
Total expenses	<u>\$ 3,624,293</u>	<u>\$ 831,728</u>	<u>\$ 574,533</u>	<u>\$ 474,859</u>	<u>\$ 5,505,413</u>	<u>\$ 554,103</u>	<u>\$ 1,432,890</u>	<u>\$ 7,492,406</u>

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

**PORTLAND MUSEUM OF ART**

**Statements of Cash Flows**

**Years Ended January 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 1,545,583	\$ 6,666,393
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	541,662	537,352
Net realized and unrealized losses (gains) on investments	2,197,583	(4,974,591)
Restricted contributions - perpetual in nature	(3,259,901)	(2,954,117)
Contributions restricted for acquisition and preservation, investment or collection	(1,349,818)	(699,007)
Collection items sold	(1,357,262)	(60,000)
Collection items purchased	148,000	574,533
(Increase) decrease in		
Accounts receivable	(137,983)	(17,197)
Inventories	33,983	13,077
Prepaid expenses	(84,019)	126,324
Bequest receivable	48,835	45,596
Increase (decrease) in operating accounts payable and accrued expenses	<u>248,328</u>	<u>(223,745)</u>
Net cash used by operating activities	<u>(1,425,009)</u>	<u>(965,382)</u>
Cash flows from investing activities		
Acquisition of equipment and improvements and payments for preservation	(324,990)	(551,569)
Payments for purchase of collection items	(218,833)	(503,700)
Proceeds from sale of investments	11,200,424	2,314,123
Purchases of investments	(12,587,591)	(3,796,954)
Proceeds from sale of collection items	1,417,262	-
Net cash used by investing activities	<u>(513,728)</u>	<u>(2,538,100)</u>
Cash flows from financing activities		
Proceeds from restricted contributions - perpetual in nature	2,666,839	2,996,625
Proceeds from contributions restricted for acquisition and preservation, investment or collection	999,329	1,058,332
Repayment of borrowings on lines of credit, net	-	(509,000)
Principal payments on long-term debt	(14,319)	(13,773)
Net cash provided by financing activities	<u>3,651,849</u>	<u>3,532,184</u>
Net increase in cash and cash equivalents	1,713,112	28,702
Cash and cash equivalents, beginning of year	<u>211,501</u>	<u>182,799</u>
Cash and cash equivalents, end of year	\$ <u>1,924,613</u>	\$ <u>211,501</u>
Supplemental disclosures		
Noncash investing transactions:		
Collection item sales reported in accounts receivable	\$ <u>-</u>	\$ <u>60,000</u>
Collection purchases reported in accounts payable	\$ <u>-</u>	\$ <u>70,833</u>

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

# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2019 and 2018

### **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 PMA 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 PMA 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, 2019 and 2018

### 1. Summary of Significant Accounting Policies

#### Accounting Standards Adoption

During 2019, the PMA adopted Financial Accounting Standard Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958) and retrospectively applied the 2018 financial statements and related notes were relabeled or reclassified to conform with the new ASU. The adoption of ASU No. 2016-14 did not impact PMA's 2018 financial position or net assets.

Under ASU No. 2016-14:

- The previous three category classification of net assets is replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions."
- The guidance for classifying deficiencies in endowment funds was also been simplified and clarified.
- New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements.
- Both natural and functional classifications of expenses are reported in the same place; as such, statements of functional expenses are now included in the financial statements.

New or revised disclosures in the financial statement are: Note 1 - Financial Statement Basis of Presentation, Note 2 - Liquidity and Availability of Financial Assets, Note 7 - Investments, as well as the statements of functional expenses for the years ending January 31, 2019 and 2018.

#### Financial Statement Basis of Presentation

The Portland Museum of Art reports information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the PMA. These net assets may be used at the discretion of the PMA's management and the Board of Trustees.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the PMA or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2019 and 2018

### **New Accounting Pronouncement**

In July 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958). The ASU was issued to clarify and improve the accounting guidance for contributions received and contributions made and is effective for annual periods beginning after December 15, 2018. The PMA is evaluating the impact ASU No. 2018-08 will have on its financial statements and disclosures.

### **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 primarily represent funds received from donors with restrictions temporary in nature, including unspent proceeds from deaccessions. 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. There were no conditional promises to give at January 31, 2019 and 2018.

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 changes in net assets with donor restrictions. 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.

# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2019 and 2018

### **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, 2019 and 2018, 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 art collection includes more than 18,000 objects and represents significant holdings of American, European, and contemporary art, as well as iconic works from Maine—highlighting the rich artistic tradition of the state and its artists. The collection includes paintings, sculpture, prints, photographs, glass, ceramics, furniture, silver, artists' books and other media, and is highlighted by works by George Bellows, Max Beckmann, Katherine Bradford, David Moses Bridges, Marc Chagall, Frederic Church, Gustave Courbet, Stuart Davis, Edgar Degas, Lois Dodd, Leonardo Drew, David Driskell, Richard Estes, Jeremy Frey, Jeffrey Gibson, Nan Goldin, John Haberle, Marsden Hartley, Childe Hassam, Winslow Homer, Edward Hopper, Jean Auguste Dominique Ingres, Alex Katz, Rockwell Kent, Yasuo Kuniyoshi, Fitz Henry Lane, Claude Monet, Thomas Moran, Louise Nevelson, John Frederick Peto, William Pope.L, Pierre Auguste Renoir, Tim Rollins & K.O.S., John Singer Sargent, Theresa Secord, Andrew Wyeth, N.C. Wyeth, and Betty Woodman. The PMA is accredited by the American Alliance 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 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 Alliance 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.

# PORTLAND MUSEUM OF ART

## Notes to Financial Statements

January 31, 2019 and 2018

### **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 and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an analysis of personnel time and space utilized for the related services.

### **Volunteer Services**

Volunteers work directly with professional staff to further the PMA's mission. Volunteer positions include Docents, Homer Studio Tour Guides, and volunteers in the Communications, Curatorial, Learning and Interpretation, and Registration departments. The total number of volunteer hours approximated 2,641 and 2,366 in 2019 and 2018, respectively. 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 11, 2019, which was the date that the financial statements were available to be issued.

**PORTLAND MUSEUM OF ART**

**Notes to Financial Statements**

**January 31, 2019 and 2018**

**2. Liquidity and Availability of Financial Assets**

The PMA regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to optimize the investment of its available funds. The PMA has various sources of liquidity at its disposal, including cash and cash equivalents, investments and a line of credit. The PMA has board designated investments that it does not intend to spend other than the amounts appropriated for operations as part of the budget approval process. However, board designated investments could be made available, if necessary, by the board.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the PMA considers all expenditures related to its ongoing activities, and general and administrative services undertaken to support those ongoing activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the PMA operates with a balanced budget and anticipates collecting sufficient revenue to cover expenditures not covered by donor-restricted resources or, where appropriate, borrowings.

At January 31, the following financial assets could readily be available within one year of the balance sheet date to meet general expenditures:

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash and cash equivalents	\$ 1,924,613	\$ 211,501
Accounts receivable, net	256,505	178,522
Inventory and prepaid expenses	475,118	425,082
Contributions receivable	1,690,644	747,093
Bequest receivable, net	232,693	281,528
Investments	<u>37,580,222</u>	<u>38,390,638</u>
Total financial assets	<u>42,159,795</u>	<u>40,234,364</u>
Assets with restrictions		
Donor-restricted net assets currently available - temporary in nature, including related pledges	(2,316,657)	(406,150)
Donor-restricted pledges - perpetual in nature	(1,276,800)	(232,693)
Pledges and bequest receivable for support of future periods beyond one year	(318,385)	(232,693)
Investments with donor restrictions	(34,313,449)	(34,755,039)
Investments requiring Board approval to spend*	(3,266,773)	(3,635,599)
Board-approved appropriation for the coming year*	<u>1,819,636</u>	<u>1,708,192</u>
Total assets with restrictions	<u>(39,672,428)</u>	<u>(37,553,982)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,487,367</u>	<u>\$ 2,680,382</u>

\* As noted above, the PMA has self-imposed restrictions on the use of certain investment funds. Appropriations are calculated per policy and approved by the Board in annual budgets.

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**3. Appreciation (Deficiency) on Net Asset with Donor Restrictions - Perpetual in Nature**

Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the PMA deems all investment income on net assets with donor restrictions (invested in perpetuity) investments to be classified as net assets with donor restrictions 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 net assets with donor restrictions perpetual in nature (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 net assets with donor restrictions (invested in perpetuity) is classified as net assets with donor restrictions 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 PMA 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

**4. Contributions and Bequest Receivable**

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

	<u>2019</u>	<u>2018</u>
Contributions receivable	\$ <u>1,690,644</u>	\$ <u>747,093</u>
Bequest receivable before discount	275,684	344,605
Less discount at 7.1%	<u>(42,991)</u>	<u>(63,077)</u>
Bequest receivable, net	<u>232,693</u>	<u>281,528</u>
	<u>\$ 1,923,337</u>	<u>\$ 1,028,621</u>

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

	<u>2019</u>	<u>2018</u>
Within one year	\$ 647,364	\$ 426,814
Between one and four years	1,189,416	536,806
Five years	<u>129,548</u>	<u>128,078</u>
	1,966,328	1,091,698
Less discount on bequest receivable	<u>(42,991)</u>	<u>(63,077)</u>
	<u>\$ 1,923,337</u>	<u>\$ 1,028,621</u>

**5. Land, Buildings and Equipment**

Following is a summary of land, buildings and equipment:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 5,623,932	\$ 5,623,932
Buildings and improvements	24,448,669	24,139,772
Equipment	<u>847,319</u>	<u>842,802</u>
	30,919,920	30,606,506
Less accumulated depreciation	<u>15,244,967</u>	<u>14,703,304</u>
	<u>\$15,674,953</u>	<u>\$15,903,202</u>

**6. 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 PMA 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 PMA'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.

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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 and installed in the Park.

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.

### 7. Investments

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

	<u>2019</u>	<u>2018</u>
Invested cash equivalents	\$ 298,686	\$ 1,169,186
Mutual funds	6,486,703	6,494,491
Limited liability and other closely-held companies	14,956,735	16,627,490
Pooled, common and collective funds	15,468,731	13,704,040
Partnership interests and fund of funds	<u>369,367</u>	<u>395,431</u>
	<u>\$ 37,580,222</u>	<u>\$ 38,390,638</u>

As of January 31, 2019, the PMA was committed to invest an additional \$209,000 in the partnership interests and the fund of funds. Management expects the commitment to be funded through investment rebalancing. One partnership is currently scheduled to end in 2022; the other has been extended per the terms of the partnership agreement. The timing and amount of capital distributions in any future year is uncertain.

The perpetual net assets with donor restrictions 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 distribution rates in 2019 were 2.0%, 4.5%, or 5.4% depending on the fund.



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The distribution rates in 2018 were 4.5% or 5.4% depending on the fund. Per the Spending Policy section of the Investment Policy Statement, beginning February 1, 2019, the distribution rate is to be reduced by .1% per year for five years until the distribution rate ranges from 4.0% to 4.9%.

Through January 2027 certain permanent endowment net assets (\$5,036,804 at January 31, 2019) 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, 2019) is not temporarily decreased by more than 10%.

Investments by class of net assets (deficiency) are as follows:

	<u>2019</u>	<u>2018</u>
Without donor restrictions	\$ 3,266,773	\$ 3,635,599
With donor restrictions - temporary in nature	<b>(532,531)</b>	2,575,898
With donor restrictions - perpetual in nature	<u>34,845,980</u>	<u>32,179,141</u>
	<u><b>\$ 37,580,222</b></u>	<u>\$ 38,390,638</u>

Changes in invested endowment net assets (deficiency) for the year ended January 31, 2019 are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>		
		Temporary in Nature	Perpetual in Nature	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,635,599	\$ 2,575,898	\$ 32,179,141	\$ 38,390,638
Contributions and other amounts invested	388,412	-	2,666,839	3,055,251
Investment return (loss)				
Investment income, net of \$192,704 in fees	6,042	34,066	-	40,108
Realized gains on investments	134,976	1,360,303	-	1,495,279
Net depreciation of investments	<u>(726,966)</u>	<u>(2,965,896)</u>	-	<u>(3,692,862)</u>
Total investment (loss) return	<u>(585,948)</u>	<u>(1,571,527)</u>	-	<u>(2,157,475)</u>
Appropriation of endowment assets for expenditure under spending policy or expiration of restrictions	<u>(171,290)</u>	<u>(1,536,902)</u>	-	<u>(1,708,192)</u>
Endowment net assets (deficiency), end of year	<u><b>\$ 3,266,773</b></u>	<u><b>\$ (532,531)</b></u>	<u><b>\$ 34,845,980</b></u>	<u><b>\$ 37,580,222</b></u>

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

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>		
		<u>Temporary in Nature</u>	<u>Perpetual in Nature</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>1,148,250</u>	<u>3,435,292</u>	<u>-</u>	<u>4,583,542</u>
Total investment return	1,187,927	3,784,347	-	4,972,274
Appropriation of endowment assets for expenditure under spending policy or expiration of restrictions	<u>(174,285)</u>	<u>(1,545,699)</u>	<u>-</u>	<u>(1,719,984)</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>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires PMA to retain as a fund of perpetual duration. Deficiencies of this nature exist in donor-restricted endowment funds, which have original gift values totaling \$24,738,290, fair values totaling \$23,760,336, and accumulated deficiencies totaling \$977,954 as of January 31, 2019. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. There were no deficiencies of this nature as of January 31, 2018.

**8. 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.

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**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, 2019</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Cash equivalent investments				
Money market funds	\$ 298,686	\$ 298,686	\$ -	\$ -
Mutual funds				
Long-term capital appreciation	6,486,703	6,486,703	-	-
Pooled, common and collective funds	<u>15,468,731</u>	<u>-</u>	<u>15,468,731</u>	<u>-</u>
	<u>22,254,120</u>	<u>\$ 6,785,389</u>	<u>\$ 15,468,731</u>	<u>\$ -</u>
Investments at net asset value	<u>15,326,102</u>			
Total investments	<u>\$ 37,580,222</u>			

	<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	-	-
Pooled, common and collective 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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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.

**9. 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, 2019 and 2018 these deposits equaled \$215,347 and \$220,358, respectively. There were no advances outstanding at January 31, 2019 and 2018.

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.

Interest expense and cash paid for interest during the years ended January 31, 2019 and 2018 totaled \$780 and \$7,031, respectively.

**10. Net Assets Without Donor Restrictions**

Net assets without donor restrictions are as follows:

	<u>2019</u>	<u>2018</u>
Net investment in capital assets	\$ 16,546,114	\$ 16,748,467
Board designated for capital and special projects	30,152	43,380
Board designated for investment	3,266,773	3,635,599
Investment in land held for future use	3,016,815	3,016,815
Other (deficiency)	<u>(164,787)</u>	<u>68,856</u>
	<u>\$ 22,695,067</u>	<u>\$ 23,513,117</u>

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**11. Net Assets with Donor Restrictions - Temporary in Nature**

Net assets (deficiency) with donor restrictions - temporary in nature at January 31 are available for the following purposes or periods:

	<u>Currently Available</u>	Income (Deficiency) in Excess of Spending Policy	Amounts Receivable in Future Periods	<u>Total</u>
<b><u>2019</u></b>				
Education	\$ 29,082	\$ 100,165	\$ -	\$ 129,247
Maintenance of collection and building	40,432	139,015	-	179,447
Acquisition of art for the collection	1,646,028	206,243	-	1,852,271
Other restricted purposes	<u>601,115</u>	<u>(977,954)</u>	<u>646,537</u>	<u>269,698</u>
	<u>\$2,316,657</u>	<u>\$ (532,531)</u>	<u>\$ 646,537</u>	<u>\$ 2,430,663</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>

**12. Net Assets with Donor Restrictions - Perpetual in Nature**

At January 31, the PMA's net assets with donor restrictions - perpetual in nature consist of endowment funds from which income is expendable to support the following:

	<u>2019</u>	<u>2018</u>
General operations, including \$937,400 and \$683,738 in contributions receivable at January 31, 2019 and 2018, respectively	\$ 24,753,927	\$ 23,956,596
Education, including \$339,400 in contributions receivable at January 31, 2019	5,545,703	3,163,983
Maintenance of collection and buildings	3,500,934	3,450,934
Acquisition of art for the collection	731,339	730,139
Wages and related expenses	1,340,328	1,315,328
Other	<u>250,549</u>	<u>245,899</u>
	<u>\$ 36,122,780</u>	<u>\$ 32,862,879</u>

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**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, 2019 and 2018, the PMA contributed \$41,846 and \$40,666 to the Plan, respectively.