



PORTLAND MUSEUM *of* ART

FINANCIAL STATEMENTS

January 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
September 25, 2020

PORTLAND MUSEUM OF ART

Balance Sheets

January 31, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,280,495	\$ 1,924,613
Accounts receivable	708,764	256,505
Inventory, at cost	125,678	133,083
Prepaid expenses	392,729	342,035
Contributions receivable	1,163,486	1,690,644
Bequest receivable, net	180,385	232,693
Art collection (Note 1)	1	1
Land, buildings and equipment, net	15,141,741	15,674,953
Preservation in progress	1,011,141	883,366
Property held for future use	5,175,364	3,016,815
Investments	<u>42,438,486</u>	<u>37,580,222</u>
Total assets	<u>\$ 68,618,270</u>	<u>\$ 61,734,930</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 787,808	\$ 474,215
Notes payable	<u>1,850,000</u>	<u>12,205</u>
Total liabilities	<u>2,637,808</u>	<u>486,420</u>
Net assets		
Without donor restrictions	<u>22,294,280</u>	<u>22,695,067</u>
With donor restrictions		
Temporary in nature	5,219,621	2,430,663
Perpetual in nature	<u>38,466,561</u>	<u>36,122,780</u>
Total net assets with donor restrictions	<u>43,686,182</u>	<u>38,553,443</u>
Total net assets	<u>65,980,462</u>	<u>61,248,510</u>
Total liabilities and net assets	<u>\$ 68,618,270</u>	<u>\$ 61,734,930</u>

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

PORTLAND MUSEUM OF ART

Statements of Activities

Years Ended January 31, 2020 and 2019

	2020				2019			
	Without Donor Restrictions	With Donor Restrictions		Total	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary in Nature	Perpetual in Nature			Temporary in Nature	Perpetual in Nature	
Changes in net assets								
Public support and revenues (losses)								
Contributions and grants	\$ 2,550,445	\$ 1,750,591	\$ 2,343,781	\$ 6,644,817	\$ 3,169,140	\$ 1,349,818	\$ 3,259,901	\$ 7,778,859
Memberships	709,611	-	-	709,611	640,381	-	-	640,381
Admissions	716,913	-	-	716,913	569,365	-	-	569,365
Program and deaccessioning revenues	369,229	400,149	-	769,378	317,527	1,379,677	-	1,697,204
PMA Store revenues	544,186	-	-	544,186	495,992	-	-	495,992
Return (losses) on investments	<u>119,766</u>	<u>3,545,522</u>	<u>-</u>	<u>3,665,288</u>	<u>(585,948)</u>	<u>(1,571,527)</u>	<u>-</u>	<u>(2,157,475)</u>
Total public support and revenues, net of losses	<u>5,010,150</u>	<u>5,696,262</u>	<u>2,343,781</u>	<u>13,050,193</u>	<u>4,606,457</u>	<u>1,157,968</u>	<u>3,259,901</u>	<u>9,024,326</u>
Net assets released from restrictions								
Satisfaction of program or capital asset purchase restrictions	1,576,778	(1,576,778)	-	-	726,094	(726,094)	-	-
Expiration of time restrictions	52,308	(52,308)	-	-	48,835	(48,835)	-	-
Restricted earnings transferred by spending policy for operations	<u>1,278,218</u>	<u>(1,278,218)</u>	<u>-</u>	<u>-</u>	<u>1,279,307</u>	<u>(1,279,307)</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>2,907,304</u>	<u>(2,907,304)</u>	<u>-</u>	<u>-</u>	<u>2,054,236</u>	<u>(2,054,236)</u>	<u>-</u>	<u>-</u>
Total revenues (losses), net of releases	<u>7,917,454</u>	<u>2,788,958</u>	<u>2,343,781</u>	<u>13,050,193</u>	<u>6,660,693</u>	<u>(896,268)</u>	<u>3,259,901</u>	<u>9,024,326</u>
Expenses								
Program								
Exhibits and collections	4,278,141	-	-	4,278,141	3,914,931	-	-	3,914,931
Education	1,109,228	-	-	1,109,228	1,057,181	-	-	1,057,181
Collection items purchased	380,800	-	-	380,800	148,000	-	-	148,000
PMA Store	506,423	-	-	506,423	480,860	-	-	480,860
Management and general	603,222	-	-	603,222	554,471	-	-	554,471
Development and membership	<u>1,440,427</u>	<u>-</u>	<u>-</u>	<u>1,440,427</u>	<u>1,323,300</u>	<u>-</u>	<u>-</u>	<u>1,323,300</u>
Total expenses	<u>8,318,241</u>	<u>-</u>	<u>-</u>	<u>8,318,241</u>	<u>7,478,743</u>	<u>-</u>	<u>-</u>	<u>7,478,743</u>
Change in net assets	(400,787)	2,788,958	2,343,781	4,731,952	(818,050)	(896,268)	3,259,901	1,545,583
Net assets, beginning 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>
Net assets, end of year	<u>\$ 22,294,280</u>	<u>\$ 5,219,621</u>	<u>\$ 38,466,561</u>	<u>\$ 65,980,462</u>	<u>\$ 22,695,067</u>	<u>\$ 2,430,663</u>	<u>\$ 36,122,780</u>	<u>\$ 61,248,510</u>

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

PORTLAND MUSEUM OF ART
Statement of Functional Expenses
Year Ended January 31, 2020

	<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	\$ -	\$ -	\$ 380,800	\$ -	\$ 380,800	\$ -	\$ -	\$ 380,800
Advertising and promotion	137,218	24,578	-	1,756	163,552	-	36,710	200,262
Cost of goods sold	-	-	-	236,478	236,478	-	-	236,478
Depreciation	438,460	54,281	-	10,451	503,192	4,906	25,114	533,212
Education	-	231,192	-	-	231,192	-	-	231,192
Exhibitions and collections care	604,860	-	-	-	604,860	-	-	604,860
Fundraising and membership	-	-	-	-	-	-	301,873	301,873
Information technology	107,532	17,268	-	9,612	134,412	13,465	63,392	211,269
Insurance	136,160	8,126	-	987	145,273	3,776	2,370	151,419
Interest	-	312	-	-	312	-	-	312
Meetings and conferences	18,480	9,750	-	451	28,681	15,126	8,466	52,273
Occupancy	280,398	34,122	-	6,670	321,190	3,198	15,850	340,238
Office expenses	47,085	20,807	-	6,212	74,104	31,217	35,100	140,421
Professional fees and outside services	209,737	28,027	-	1,946	239,710	57,734	37,544	334,988
Salaries and benefits	2,252,179	632,359	-	231,594	3,116,132	459,454	889,015	4,464,601
Travel	<u>46,032</u>	<u>48,406</u>	<u>-</u>	<u>266</u>	<u>94,704</u>	<u>14,346</u>	<u>24,993</u>	<u>134,043</u>
Total expenses	<u>\$ 4,278,141</u>	<u>\$ 1,109,228</u>	<u>\$ 380,800</u>	<u>\$ 506,423</u>	<u>\$ 6,274,592</u>	<u>\$ 603,222</u>	<u>\$ 1,440,427</u>	<u>\$ 8,318,241</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	<u>30,773</u>	<u>99,786</u>	<u>-</u>	<u>177</u>	<u>130,736</u>	<u>7,423</u>	<u>2,703</u>	<u>140,862</u>
Total expenses	<u>\$ 3,914,931</u>	<u>\$ 1,057,181</u>	<u>\$ 148,000</u>	<u>\$ 480,860</u>	<u>\$ 5,600,972</u>	<u>\$ 554,471</u>	<u>\$ 1,323,300</u>	<u>\$ 7,478,743</u>

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

PORTLAND MUSEUM OF ART

Statements of Cash Flows

Years Ended January 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 4,731,952	\$ 1,545,583
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	533,212	541,662
Net realized and unrealized (gains) losses on investments	(3,563,597)	2,197,583
Restricted contributions - perpetual in nature	(2,343,781)	(3,259,901)
Contributions restricted for acquisition and preservation, investment or collection	(1,750,591)	(1,349,818)
Collection items sold	(380,000)	(1,357,262)
Collection items purchased	380,800	148,000
(Increase) decrease in		
Accounts receivable	(72,259)	(137,983)
Inventories	7,405	33,983
Prepaid expenses	(50,694)	(84,019)
Bequest receivable	52,308	48,835
Increase in operating accounts payable and accrued expenses	<u>221,356</u>	<u>248,328</u>
Net cash used by operating activities	<u>(2,233,889)</u>	<u>(1,425,009)</u>
Cash flows from investing activities		
Acquisition of equipment and improvements, property held for future use and payments for preservation	(344,087)	(324,990)
Payments for purchase of collection items	(380,800)	(218,833)
Proceeds from sale of investments	70,734,811	11,200,424
Purchases of investments	(72,029,478)	(12,587,591)
Proceeds from sale of collection items	-	1,417,262
Net cash used by investing activities	<u>(2,019,554)</u>	<u>(513,728)</u>
Cash flows from financing activities		
Proceeds from restricted contributions - perpetual in nature	2,811,363	2,666,839
Proceeds from contributions restricted for acquisition and preservation, investment or collection	1,810,167	999,329
Principal payments on long-term debt	(12,205)	(14,319)
Net cash provided by financing activities	<u>4,609,325</u>	<u>3,651,849</u>
Net increase in cash and cash equivalents	355,882	1,713,112
Cash and cash equivalents, beginning of year	<u>1,924,613</u>	<u>211,501</u>
Cash and cash equivalents, end of year	<u>\$ 2,280,495</u>	<u>\$ 1,924,613</u>
Supplemental disclosures		
Noncash investing and financing transactions:		
Property held for future use acquired with issuance of note payable	\$ <u>1,850,000</u>	\$ <u>-</u>
Accrued interested capitalized as property held for future use	\$ <u>29,677</u>	\$ <u>-</u>
Collection item sales proceeds reported in accounts receivable	\$ <u>380,000</u>	\$ <u>-</u>

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

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2020 and 2019

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 PMA's Mission, Vision, Values and Goals are:

Mission

Art for All. The Portland Museum of Art seeks to create an inclusive space that champions open expression and makes art accessible to all.

Vision

To be a central gathering place where a strong artistic vision and the collection drive conversation, creativity, cultural vitality, and economic impact.

Values

COURAGE. We believe in bold choices, leading with humility and integrity.

EQUITY. We value all identities and seek to understand and eliminate disparities and barriers.

SERVICE. We embrace our responsibility to be in service to others and responsive to the changing needs of our community and the world.

SUSTAINABILITY. We prioritize thoughtful stewardship of the earth's resources in all we do.

TRUST. We believe in being active listeners and transparent partners, striving every day to earn the trust of our communities, audiences, and employees.

Goal Areas

ARTISTIC VISION

Cultivate curiosity and wonder through an artistic program that honors excellence, ideas, innovation, Maine's rich artistic legacy, and the relationship between the local and global.

CAMPUS UNIFICATION

Reimagine the campus as an architecturally innovative gathering place for art, conversation, creativity, environmental responsibility, historic preservation, and partnerships.

EXPERIENCE

Broaden and deepen connections with audiences through experiential and immersive opportunities, community partnerships, and expanded outreach.

PEOPLE

Empower staff, board and volunteers through a culture that reflects inclusion, flexibility, and shared responsibility.

CULTURE OF PHILANTHROPY

Inspire gratitude and generosity by living our values and delivering on mission and vision.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2020 and 2019

1. Summary of Significant Accounting Policies

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.

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.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2020 and 2019

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, 2020 and 2019.

Contributions of assets other than cash are recorded at their estimated fair value on the date received. Amortization of any 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. Management determined no allowance was necessary at January 31, 2020 and 2019.

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.

During 2020, the PMA adopted Financial Accounting Standards (FASB) issued Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities (Topic 958) *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides guidance for determining when transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and whether a contribution is conditional. The adoption of FASB ASU No. 2018-08 did not have an impact on the PMA's financial position, results of activities or disclosures.

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, 2020 and 2019, 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.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2020 and 2019

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, Kara Walker, Andrew Wyeth, N.C. Wyeth, Betty Woodman, and Marguerite Thompson Zorach. 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 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.

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.

Property Held for Future Use

Property 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, 2020 and 2019

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 museum's departments. The total number of volunteer hours approximated 2,250 and 2,641 in 2020 and 2019, 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.

Recent Accounting Pronouncements

The PMA has deferred adoption of FASB Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, (Topic 606) which provides guidance for revenue recognition that supersedes revenue recognition under ASC Topic 605 and most industry-specific guidance. ASU 2020-05 afforded nonpublic entities a one-year extension for adoption, pushing it into the year ending January 31, 2021 for the PMA. Management is evaluating the impact Topic 606 will have on the PMA's financial statements and disclosures.

In March 2019, FASB issued ASU No. 2019-03, *Not-for-Profit Entities, (Topic 958)*, which improves the definition of collections by realigning it with the definition in the American Alliance of Museums Code of Ethics for Museums and requires a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned. Under the ASU, if a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should also disclose its definition of direct care. The ASU is effective for fiscal years beginning after December 15, 2019. The PMA is evaluating the impact ASU No. 2019-03 will have on its financial statements.

Subsequent Events

Management has considered transactions or events occurring through September 25, 2020, which was the date that the financial statements were available to be issued.

PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2020 and 2019

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>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents	\$ 2,280,495	\$ 1,924,613
Accounts receivable, net	708,764	256,505
Inventory and prepaid expenses	518,407	475,118
Contributions receivable	1,163,486	1,690,644
Bequest receivable, net	180,385	232,693
Board-approved appropriation for the coming year*	<u>2,039,908</u>	<u>1,819,636</u>
Total financial assets	<u>6,891,445</u>	<u>6,399,209</u>
Assets with restrictions		
Donor-restricted net assets currently available - temporary in nature, including related pledges	(3,294,923)	(2,316,657)
Donor-restricted pledges - perpetual in nature	(809,218)	(1,276,800)
Pledges and bequest receivable for support of future periods beyond one year	<u>(154,351)</u>	<u>(318,385)</u>
Total assets with restrictions	<u>(4,258,492)</u>	<u>(39,672,428)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,632,953</u>	<u>\$ 2,487,367</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 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>2020</u>	<u>2019</u>
Contributions receivable	\$ <u>1,163,486</u>	\$ <u>1,690,644</u>
Bequest receivable before discount	206,763	275,684
Less discount at 7.1%	<u>(26,378)</u>	<u>(42,991)</u>
Bequest receivable, net	<u>180,385</u>	<u>232,693</u>
	<u>\$ 1,343,871</u>	<u>\$ 1,923,337</u>

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

	<u>2020</u>	<u>2019</u>
Within one year	\$ 618,487	\$ 647,364
Between one and four years	697,494	1,189,416
Five years	<u>54,268</u>	<u>129,548</u>
	1,370,249	1,966,328
Less discount on bequest receivable	<u>(26,378)</u>	<u>(42,991)</u>
	<u>\$ 1,343,871</u>	<u>\$ 1,923,337</u>

5. Land, Buildings and Equipment

Following is a summary of land, buildings and equipment:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 5,623,932	\$ 5,623,932
Buildings and improvements	24,448,669	24,448,669
Equipment	<u>828,094</u>	<u>847,319</u>
	30,900,695	30,919,920
Less accumulated depreciation	<u>15,758,954</u>	<u>15,244,967</u>
	<u>\$15,141,741</u>	<u>\$15,674,953</u>

6. Preservation in Progress and Property 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. The Campus Master Plan is the starting point for the PMA's goal to reimagine the campus as an architecturally innovative gathering place for art, conversation, creativity, environmental responsibility, historic preservation, and partnerships.

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Projects completed to date under the Campus Master Plan include an updated interpretation and reinstallation of the collection; 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; the Konkel Family Welcome Center; and The David E. Shaw and Family Sculpture Park, which is accessible to all through a gate on High Street, and is free to the public.

Property held for future use consists of two properties adjacent to the PMA. The PMA purchased the Spring Street property in July 2007 and demolished and abated the buildings on the property and improved the lot for parking in 2009.

In October 2019, the PMA completed the purchase of 142 Free Street, the current home of the Children's Museum and Theater of Maine. This purchase provides an opportunity to begin implementation of the PMA's goal to broaden and deepen connections with audiences through experiential and immersive opportunities, community partnerships, and expanded outreach.

7. Investments

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

	<u>2020</u>	<u>2019</u>
Invested cash equivalents	\$ 2,153,345	\$ 298,686
Mutual funds	6,638,013	6,486,703
Limited liability and other closely-held companies	33,385,698	14,956,735
Pooled, common and collective funds	-	15,468,731
Partnership interests and fund of funds	<u>261,430</u>	<u>369,367</u>
	<u>\$ 42,438,486</u>	<u>\$ 37,580,222</u>

As of January 31, 2020, the PMA was committed to invest an additional \$202,000 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.

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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 2020 were 2.0%, 4.4%, or 5.3% depending on the fund. The distribution rates in 2019 were 2.0%, 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 (\$5,420,501 at January 31, 2020) 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, 2020) is not temporarily decreased by more than 10%.

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

	<u>2020</u>	<u>2019</u>
Without donor restrictions	\$ 3,391,098	\$ 3,266,773
With donor restrictions - temporary in nature	1,390,045	(532,531)
With donor restrictions - perpetual in nature	<u>37,657,343</u>	<u>34,845,980</u>
	<u>\$ 42,438,486</u>	<u>\$ 37,580,222</u>

Changes in invested endowment net assets (deficiency) for the year ended January 31, 2020 are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>		<u>Total</u>
		Temporary in Nature	Perpetual in Nature	
Endowment net assets (deficiency), beginning of year	\$ 3,266,773	\$ (532,531)	\$ 34,845,980	\$ 37,580,222
Contributions and other amounts invested	191,967	-	2,811,363	3,003,330
Investment return (loss)				
Investment income, net of \$155,386 in fees	10,994	90,697	-	101,691
Realized gains on investments	372,507	4,059,259	-	4,431,766
Net depreciation of investments	<u>(263,735)</u>	<u>(604,434)</u>	-	<u>(868,169)</u>
Total investment return	119,766	3,545,522	-	3,665,288
Appropriation of endowment assets for expenditure under spending policy or expiration of restrictions	<u>(187,408)</u>	<u>(1,622,946)</u>	-	<u>(1,810,354)</u>
Endowment net assets, end of year	<u>\$ 3,391,098</u>	<u>\$ 1,390,045</u>	<u>\$ 37,657,343</u>	<u>\$ 42,438,486</u>

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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>		
		<u>Temporary in Nature</u>	<u>Perpetual in Nature</u>	<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 \$178,965 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>-</u>	<u>(3,692,862)</u>
Total investment loss	(585,948)	(1,571,527)	-	(2,157,475)
Appropriation of endowment assets for expenditure under spending policy or expiration of restrictions	<u>(171,290)</u>	<u>(1,536,902)</u>	<u>-</u>	<u>(1,708,192)</u>
Endowment net assets (deficiency), end of year	<u>\$ 3,266,773</u>	<u>\$ (532,531)</u>	<u>\$34,845,980</u>	<u>\$37,580,222</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. There were no deficiencies of this nature as of January 31, 2020. 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.

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, 2020</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Cash equivalent investments				
Money market funds	\$ 2,153,345	\$ 2,153,345	\$ -	\$ -
Mutual funds				
Long-term capital appreciation	<u>6,638,013</u>	<u>6,638,013</u>	<u>-</u>	<u>-</u>
	<u>8,791,358</u>	<u>\$ 8,791,358</u>	<u>\$ -</u>	<u>\$ -</u>
Investments at net asset value	<u>33,647,128</u>			
Total investments	<u>\$ 42,438,486</u>			

	<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>			

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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, 2020 and 2019 these bank deposits equaled \$521,649 and \$215,347, respectively. There were no advances outstanding at January 31, 2020 and 2019.

In September 2019, PMA entered into a financing agreement with the Children's Museum and Theater of Maine (the seller) for the purchase of 142 Free Street. The note issued of \$1,850,000 is payable to seller in four equal installments of \$462,500, plus interest at 5.5%, over the 20 month term on April 15, 2020, August 15, 2020, December 15, 2020 and June 15, 2021.

Approximate maturities of long-term debt is as follows for the years ending January 31:

2021	\$1,387,500
2022	<u>462,500</u>
	<u>\$1,850,000</u>

The note payable outstanding at January 31, 2019 was paid in full during 2020.

10. Net Assets Without Donor Restrictions

Net assets without donor restrictions are as follows:

	<u>2020</u>	<u>2019</u>
Net investment in capital assets	\$ 16,152,882	\$ 16,546,114
Board designated for capital and special projects	-	30,152
Board designated for investment	3,391,098	3,266,773
Investment in property held for future use	3,295,687	3,016,815
Other (deficiency)	<u>(545,387)</u>	<u>(164,787)</u>
	<u>\$ 22,294,280</u>	<u>\$ 22,695,067</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>
<u>2020</u>				
Education	\$ 107,697	\$ 362,566	\$ 200,000	\$ 670,263
Maintenance of collection and building	842,836	327,123	-	1,169,959
Acquisition of art for the collection	1,918,148	253,760	-	2,171,908
Other restricted purposes	<u>426,242</u>	<u>446,596</u>	<u>334,653</u>	<u>1,207,491</u>
	<u>\$3,294,923</u>	<u>\$1,390,045</u>	<u>\$ 534,653</u>	<u>\$ 5,219,621</u>
 <u>2019</u>				
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>

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>2020</u>	<u>2019</u>
General operations, including \$593,609 and \$937,400 in contributions receivable at January 31, 2020 and 2019, respectively	\$ 26,453,927	\$ 24,753,927
Education, including \$215,609 and \$339,400 in contributions receivable at January 31, 2020 and 2019, respectively	5,598,219	5,545,703
Maintenance of collection and buildings	3,550,934	3,500,934
Acquisition of art for the collection	732,339	731,339
Wages and related expenses	1,877,943	1,340,328
Other	<u>253,199</u>	<u>250,549</u>
	<u>\$ 38,466,561</u>	<u>\$ 36,122,780</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, 2020 and 2019, the PMA contributed \$49,537 and \$41,846 to the Plan, respectively.

14. Uncertainty and Contingency

In the ordinary course of operations, the PMA may be periodically involved in legal claims. While the PMA is not currently undergoing such claims, in the opinion of management, the PMA has adequate legal defense or insurance coverage with respect to such claims and management does not believe that they will have a material adverse effect on the PMA's financial statements.

Subsequent to January 31, 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries and organizations are experiencing disruption to operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the PMA as of September 25, 2020, management believes that a material impact on the PMA's financial position and results of future activities is reasonably possible.

Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted into law on March 27, 2020, emergency loans and other assistance and credits were made available to help, among other things, protect and preserve jobs and provide companies forgivable bridge loans needed to accomplish this. The PMA qualified for and received \$777,390 in funds through an unsecured Payroll Protection Program loan. Management and the lender will determine the amount of the loan to be forgiven (up to 100%) by the end of 2020. Any portion of the loan not forgiven will bear interest at 1% and will likely be due in equal monthly installments, including interest, November 2020 through April 2022.