

# **Cincinnati Museum Association**

Financial Statements

And Additional Information

August 31, 2016 and 2015

(with Independent Auditors' Report)

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Cincinnati Museum Association:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Cincinnati Museum Association (a not-for-profit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cincinnati Museum Association as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses on pages 21-22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
December 14, 2016

Cincinnati Museum Association  
 Statements of Financial Position  
 August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 7,083,052	5,196,551
Accounts receivable	119,893	54,481
Pledges receivable, net	4,428,552	16,293,397
Interest and dividend receivable	62,123	73,310
Prepaid expenses	221,451	226,873
Inventories	462,941	442,952
Investments	119,896,081	99,058,953
Cash surrender value of life insurance	211,616	219,149
Beneficial interest of perpetual trusts	14,571,081	14,429,724
Buildings and equipment, net	<u>19,907,772</u>	<u>20,733,514</u>
<b>Total assets</b>	<b>\$ <u>166,964,562</u></b>	<b><u>156,728,904</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Line of credit	\$ 419,846	504,846
Accounts payable	226,992	562,600
Accrued liabilities	688,686	650,040
Charitable remainder trusts	<u>640,747</u>	<u>723,800</u>
	<u>1,976,271</u>	<u>2,441,286</u>
<b>Net assets:</b>		
Unrestricted	53,746,086	50,057,579
Temporarily restricted	52,996,587	46,290,154
Permanently restricted	<u>58,245,618</u>	<u>57,939,885</u>
	<u>164,988,291</u>	<u>154,287,618</u>
<b>Total liabilities and net assets</b>	<b>\$ <u>166,964,562</u></b>	<b><u>156,728,904</u></b>

See accompanying notes to the financial statements.

Cincinnati Museum Association  
Statement of Activities  
Year Ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions, revenues, and gains:				
Operating revenue:				
Grants, contributions and gifts	\$ 4,761,237	5,375,871	166,275	10,303,383
Trust income	815,610	119,945	-	935,555
Interest and dividends, net of fees of \$205,602	818,854	1,901,884	-	2,720,738
Investment allocation income	2,151,471	(2,151,471)	-	-
Earned income	2,254,361	-	-	2,254,361
Exhibition income	48,743	-	-	48,743
Deaccession income	-	14,995	-	14,995
Loss on disposal of equipment	(26,324)	-	-	(26,324)
Other income	3,521	-	-	3,521
Net assets released from restrictions	<u>5,407,304</u>	<u>(5,407,304)</u>	<u>-</u>	<u>-</u>
 Total contributions, revenues, gains	 <u>16,234,777</u>	 <u>(146,080)</u>	 <u>166,275</u>	 <u>16,254,972</u>
 Expenses:				
Program services	10,365,238	-	-	10,365,238
Management and general	2,508,611	-	-	2,508,611
Fundraising	981,099	-	-	981,099
Purchases of art	<u>1,514,967</u>	<u>-</u>	<u>-</u>	<u>1,514,967</u>
 Total expenses	 <u>15,369,915</u>	 <u>-</u>	 <u>-</u>	 <u>15,369,915</u>
 Operating income	 <u>864,862</u>	 <u>(146,080)</u>	 <u>166,275</u>	 <u>885,057</u>
 Non-operating revenue (loss):				
Realized and unrealized gain (loss) on investments	2,823,645	6,852,513	(1,899)	9,674,259
Change in beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>141,357</u>	<u>141,357</u>
 Total non-operating revenue	 <u>2,823,645</u>	 <u>6,852,513</u>	 <u>139,458</u>	 <u>9,815,616</u>
 Change in net assets	 3,688,507	 6,706,433	 305,733	 10,700,673
Net assets, beginning of year	<u>50,057,579</u>	<u>46,290,154</u>	<u>57,939,885</u>	<u>154,287,618</u>
 Net assets, end of year	 \$ <u>53,746,086</u>	 <u>52,996,587</u>	 <u>58,245,618</u>	 <u>164,988,291</u>

See accompanying notes to the financial statements.

Cincinnati Museum Association  
Statement of Activities  
Year Ended August 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions, revenues, and gains:				
Operating revenue:				
Grants, contributions and gifts	\$ 6,401,298	3,385,767	8,325,844	18,112,909
Trust income	793,574	168,947	-	962,521
Interest and dividends, net of fees of \$175,581	628,623	1,547,920	-	2,176,543
Investment allocation income	1,904,335	(1,904,335)	-	-
Earned income	2,290,885	-	-	2,290,885
Exhibition income	171,492	-	-	171,492
Deaccession income	-	1,751	-	1,751
Loss on disposal of equipment	(409)	-	-	(409)
Other income	30,948	-	-	30,948
Net assets released from restrictions	<u>5,544,478</u>	<u>(5,544,478)</u>	<u>-</u>	<u>-</u>
 Total contributions, revenues, gains	 <u>17,765,224</u>	 <u>(2,344,428)</u>	 <u>8,325,844</u>	 <u>23,746,640</u>
 Expenses:				
Program services	10,355,635	-	-	10,355,635
Management and general	2,379,781	-	-	2,379,781
Fundraising	999,723	-	-	999,723
Purchases of art	<u>378,359</u>	<u>-</u>	<u>-</u>	<u>378,359</u>
 Total expenses	 <u>14,113,498</u>	 <u>-</u>	 <u>-</u>	 <u>14,113,498</u>
 Operating income	 <u>3,651,726</u>	 <u>(2,344,428)</u>	 <u>8,325,844</u>	 <u>9,633,142</u>
 Non-operating revenue (loss):				
Realized and unrealized loss				
on investments	(1,276,376)	(3,100,175)	(6,627)	(4,383,178)
Change in beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>(1,295,421)</u>	<u>(1,295,421)</u>
 Total non-operating revenue	 <u>(1,276,376)</u>	 <u>(3,100,175)</u>	 <u>(1,302,048)</u>	 <u>(5,678,599)</u>
 Change in net assets	 2,375,350	 (5,444,603)	 7,023,796	 3,954,543
 Net assets, beginning of year	 <u>47,682,229</u>	 <u>51,734,757</u>	 <u>50,916,089</u>	 <u>150,333,075</u>
 Net assets, end of year	 \$ <u>50,057,579</u>	 <u>46,290,154</u>	 <u>57,939,885</u>	 <u>154,287,618</u>

See accompanying notes to the financial statements.

Cincinnati Museum Association  
Statements of Cash Flows  
Years Ended August 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 10,700,673	3,954,543
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	1,849,797	1,706,040
Realized and unrealized (gain) loss on investments	(9,674,259)	4,383,178
Change in beneficial interest in perpetual trusts	(141,357)	1,295,421
Contributions restricted for endowment	(166,275)	(2,383,804)
Donated stock	(171,891)	(3,440,618)
Loss on disposal of equipment	26,324	409
Effects of change in operating assets and liabilities:		
Accounts receivable	(65,412)	(8,081)
Pledges receivable	11,864,845	(4,539,172)
Interest and dividends receivable	11,187	(17,232)
Prepaid expenses	5,422	144,696
Inventories	(19,989)	30,845
Accounts payable	(358,671)	(446,217)
Accrued liabilities	38,646	(498,428)
Charitable remainder trusts	<u>(83,053)</u>	<u>(83,694)</u>
Net cash and cash equivalents provided by operating activities	<u>13,815,987</u>	<u>97,886</u>
Cash flows from investing activities:		
Proceeds from sale of investments	41,694,465	33,771,414
Purchase of investments	(52,685,443)	(36,177,726)
Capital expenditures	(1,027,316)	(2,076,042)
Change in cash value of life insurance	<u>7,533</u>	<u>4,302</u>
Net cash and cash equivalents used by investing activities	<u>(12,010,761)</u>	<u>(4,478,052)</u>
Cash flows from financing activities:		
Net change on line of credit	(85,000)	(562,626)
Contributions restricted for endowment	<u>166,275</u>	<u>2,383,804</u>
Net cash and cash equivalents provided by financing activities	<u>81,275</u>	<u>1,821,178</u>
Net change in cash and cash equivalents	1,886,501	(2,558,988)
Cash and cash equivalents, beginning of year	<u>5,196,551</u>	<u>7,755,539</u>
Cash and cash equivalents, end of year	\$ <u>7,083,052</u>	\$ <u>5,196,551</u>
Supplemental disclosures:		
Property and equipment included in accounts payable	\$ <u>23,063</u>	<u>306,137</u>
Income tax paid	\$ <u>44,015</u>	<u>33,197</u>
Interest paid	\$ <u>8,851</u>	<u>8,670</u>

See accompanying notes to the financial statements.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The following accounting principles and practices of Cincinnati Museum Association (the "Association") are set forth to facilitate the understanding of data presented in the financial statements.

### **Nature of operations**

The Cincinnati Museum Association was organized in 1881 as a not-for-profit corporation. The Association's purpose is to inspire, empower, educate, and build communities through the Association's programs, exhibitions, collections, conservation, interpretation and scholarship. Through the power of art, the Association contributes to a more vibrant Cincinnati by inspiring its people and connecting its communities.

### **Use of estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### **Financial statement presentation**

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are not subject to donor-imposed stipulations. However, certain unrestricted net assets have been designated for specific purposes by action of the Board of Trustees. Temporarily restricted net assets are those net assets subject to donor-imposed stipulations that will likely be met by specific expenditures being made and/or the passage of time. Permanently restricted net assets are subject to donor-imposed stipulations that the principal of the gifts remain in perpetuity with the resulting investment income utilized for general, or in some cases, specific purposes.

### **Gifts, grants and donations**

Contributions of cash and other assets without donor stipulations concerning the use of such assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used in accordance with donor stipulations are reported as revenues of the temporarily or permanently restricted net asset classes.

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. All contributions made to the Association are considered available for unrestricted use, unless specifically restricted by the donor.

The Association reports gifts of land, buildings, and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as temporarily or permanently restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Donated services**

A substantial number of unpaid volunteers have contributed their time and talents to the Association. No amounts have been recorded in the financial statements for donated services since no objective basis is available to measure the value of such services.

**Cash and cash equivalents**

Interest-bearing deposits and short-term investments with original maturities of three months or less are classified as cash equivalents.

**Accounts receivable**

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of the account has not been paid in full within the contractual terms of the account. The Association reviews its outstanding accounts receivable and considers an allowance for doubtful accounts based on historical collection information and existing economic conditions. Based on these criteria, the Association has estimated no allowance for doubtful accounts is necessary at August 31, 2016 and 2015.

**Pledges receivable**

Unconditional promises to give that are expected to be collected within one year are recorded as pledges receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met. The Association provides an allowance for estimated uncollectible contributions.

**Inventory**

Inventory is stated at the lower of cost or market and consists primarily of gift shop merchandise and publications. Costs are computed using the first-in, first-out (FIFO) method.

**Prepaid expenses**

Prepaid expenses include expenditures made for development of future exhibitions. These expenditures typically relate to research, travel, insurance, transportation costs and other costs related to the development of the exhibitions.

**Buildings and equipment**

Buildings and equipment are recorded at cost and depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. Maintenance and repairs are charged to operations when incurred. Significant betterments and renewals, which the Association considers to be \$10,000 or more for buildings and \$2,500 or more for equipment, are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in unrestricted operations. The useful lives of buildings and equipment for purposes of computing depreciation range from five to forty years.

**Cash surrender value of life insurance**

The Association is the beneficiary of a donor life insurance policy. This policy is recorded at its current cash surrender value.

**Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the statements of activities.

**Art objects**

The collections, which were acquired through purchases and contributions since the Association's inception, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in temporarily restricted net assets.

**Pooled income fund and charitable remainder trusts**

The pooled income fund and charitable remainder trusts liabilities are valued using payment streams discounted at market rates over the remaining lives of the donors using standard mortality tables.

**Functional allocation of expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities, and accordingly, certain costs have been allocated between program and supporting services. All fundraising costs are charged to fundraising; there are no joint costs.

**Advertising costs**

Advertising costs are expensed as incurred. Advertising expenses during 2016 and 2015 were \$298,993 and \$313,743, respectively.

**Income taxes**

For Federal tax purposes, the Association is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Association qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Association evaluates the income tax positions taken or expected to be taken in income tax returns filed by the Association to determine whether a liability for uncertain tax positions exist and whether a liability for such uncertain positions should be recognized. The Association is exempt from income taxes and management believes the Association has not engaged in any activities that would disqualify them from tax-exempt status. Revenues derived from certain catering services provided by the Association and certain museum shop sales that are not substantially related to furthering the Association's mission are considered unrelated business income. Taxes on unrelated business income are paid in accordance with the Internal Revenue Code. No accrual has been provided because the amount of tax due is immaterial. The Association's policy with regards to interest and penalties is to recognize interest through interest expense and penalties through other expense. In evaluating the Association's tax provision and tax exempt status, interpretations and tax planning strategies were considered. The Association believes their estimates are appropriate based on the current facts and circumstances.

**Concentrations of credit risk**

Periodically during the year, the Association had cash deposits in excess of federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Association has holdings in one mutual fund and a corporate stock, which represent 29% and 35%, respectively, of the fair value of all investments at August 31, 2016 and 2015.

The Association has pledges receivable from ArtsWave and one individual which represent, 47% and 80%, of all pledges receivable at August 31, 2016 and 2015, respectively.

**Subsequent events**

The Association evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through December 14, 2016, the date on which the financial statements were available to be issued.

**Reclassifications**

Certain items from 2015 have been reclassified to conform to current year presentation.

**2. PLEDGES RECEIVABLE:**

The Association's pledges receivable are as follows as of August, 31:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 2,943,818	14,778,105
One to five years	1,307,552	1,115,802
Beyond five years	<u>300,000</u>	<u>589,307</u>
Total	4,551,370	16,483,214
Less net present value 1.9% - 3%	(107,820)	(174,509)
Less allowance for doubtful pledges	<u>(14,998)</u>	<u>(15,308)</u>
Pledges receivable, net	\$ <u>4,428,552</u>	<u>16,293,397</u>

**3. BENEFICIAL INTEREST IN PERPETUAL TRUSTS:**

The Association's beneficial interest in perpetual trusts is as follows at August 31:

<u>Trust</u>	<u>Association's Percentage of Trust</u>	<u>2016</u>	<u>2015</u>
Elma Lapp Foundation Trust	11%	\$ 6,448,229	6,355,887
Dorothy Kersten Trust	11%	2,702,236	2,682,579
Lawrence Wachs Trust	100%	2,418,214	2,534,440
ArtsWave Endowment	1.3%	1,294,806	1,271,548
Judson Martin Wilson Foundation Irrevocable Charitable Trust	60%	782,910	773,528
Thomas Busse Charitable Trust	9%	361,510	343,679
Clark Davis Trust	50%	251,735	149,720
Richard Schaengold Charitable Annuity Trust	10%	240,681	246,551
Rose Drucker Trust	6%	<u>70,760</u>	<u>71,792</u>
		<u>\$ 14,571,081</u>	<u>14,429,724</u>

**4. BUILDINGS AND EQUIPMENT:**

Buildings and equipment and related accumulated depreciation consist of the following at August 31:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 53,068,890	53,056,837
Office furniture and equipment	3,611,209	3,726,310
Construction-in-progress	<u>402,871</u>	<u>18,500</u>
	57,082,970	56,801,647
Accumulated depreciation	<u>37,175,198</u>	<u>36,068,133</u>
	<u>\$ 19,907,772</u>	<u>20,733,514</u>

**5. COLLECTIONS:**

The Cincinnati Art Museum's collection is made up of Egyptian, Greek, Roman, Indian, Chinese, Islamic, Nabatean, near and far Eastern and medieval art, 16th to 20th century American paintings, 18<sup>th</sup> and 19th century portrait miniatures, decorative arts, costumes and textiles, musical instruments, contemporary art, African and Native American art, and works on paper, including prints, drawings, watercolors, and photographs. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. During the years ended August 31, 2016 and 2015, sales of art totaled \$14,995 and \$1,751, respectively. Purchases of art totaled \$1,514,967 and \$378,359 for the years ended August 31, 2016 and 2015, respectively.

During the years ended August 31, 2016 and 2015, there was no significant damage or items destroyed in the Cincinnati Art Museum's collection.

#### **6. POOLED INCOME FUND AND CHARITABLE REMAINDER TRUSTS:**

The Association is the beneficiary of several charitable remainder trusts. The Association recognized the present values of these trusts as contributions during the initial year of the trust based on the life expectancies of the contributors, the investment rates of return on the assets, and the distribution percentages stipulated in the agreements. The underlying investments consist of money market funds, common stocks, and mutual funds at August 31, 2016 and 2015 which are included in investment on the statements of financial position. Under the trust agreements, net earnings from the investments will be added to the principal and distributions of 8.5% of the net fair value of the investment will be made to the grantors on a quarterly basis. There were no changes in actuarial assumptions resulting in revaluations at August 31, 2016 and 2015. The present values of the estimated future payments are calculated using discount rates equal to the distribution percentages and the applicable mortality table. The fair value of the charitable remainder trusts investments at August 31, 2016 and 2015 was \$1,240,632 and \$1,287,242, respectively.

The Association is also the beneficiary of a pooled income fund. The present values of the contributions to the fund were recognized as contributions during the year of the contributions in the same manner as noted for the charitable remainder trusts. The underlying investments consist of money market funds and common stock which are included in investments on the statements of financial position. Under the fund agreement, net earnings from the investments will be added to the principal and distributions of 5% of the net fair value of the investment will be made to the grantors on a quarterly basis. There were no changes in actuarial assumptions resulting in revaluations at August 31, 2016 and 2015. The present value of the estimated future payments is calculated using discount rates equal to the distribution percentage and the applicable mortality table. The fair value of the pooled income fund investments at August 31, 2016 and 2015 was \$132,419 and \$133,479, respectively.

#### **7. ENDOWMENT FUNDS:**

The Association's endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. The donor-restricted endowment consists of approximately 132 individual funds established by donors for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Association has interpreted the Ohio enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the contributed value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are

appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Association, and (7) the Association's investment policies.

The endowment consists of investments held with a number of financial institutions and the net asset composition is as follows at August 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor-restricted	\$ (286,502)	45,358,931	43,308,107	88,380,536
Board-designated	<u>28,696,806</u>	<u>-</u>	<u>-</u>	<u>28,696,806</u>
	<u>\$ 28,410,304</u>	<u>45,358,931</u>	<u>43,308,107</u>	<u>117,077,342</u>

The endowment consists of investments held with a number of financial institutions and the net asset composition is as follows at August 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor-restricted	\$ (469,001)	39,667,204	31,634,750	70,832,953
Board-designated	<u>25,483,046</u>	<u>-</u>	<u>-</u>	<u>25,483,046</u>
	<u>\$ 25,014,045</u>	<u>39,667,204</u>	<u>31,634,750</u>	<u>96,315,999</u>

Changes in endowment net assets for the year ended August 31, 2016 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Endowment <u>Assets</u>
Endowment assets, beginning of year	\$ 25,014,045	39,667,204	31,634,750	96,315,999
Contributions	1,186,370	-	166,275	1,352,645
Transfers in	-	-	11,507,082	11,507,082
Investment income	819,384	1,898,552	-	2,717,936
Realized and unrealized gains	2,506,079	7,012,612	-	9,518,691
Amounts appropriated for expenditure	(1,298,073)	(3,036,938)	-	(4,335,011)
Change in endowment funds with restrictions exceeding their balance reclassified from unrestricted net assets	<u>182,499</u>	<u>(182,499)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 28,410,304</u>	<u>45,358,931</u>	<u>43,308,107</u>	<u>117,077,342</u>

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Endowment <u>Assets</u>
Endowment assets, beginning of year	\$ 21,778,410	43,818,019	28,431,946	94,028,375
Contributions	4,859,513	-	2,383,804	7,243,317
Transfers in	-	-	819,000	819,000
Investment income	597,092	1,543,149	-	2,140,241
Realized and unrealized gains	(964,498)	(3,143,009)	-	(4,107,507)
Amounts appropriated for expenditure	(1,088,175)	(2,719,252)	-	(3,807,427)
Change in endowment funds with restrictions exceeding their balance reclassified to unrestricted net assets	<u>(168,297)</u>	<u>168,297</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 25,014,045</u>	<u>39,667,204</u>	<u>31,634,750</u>	<u>96,315,999</u>

Transfers in represent payments on pledges receivable that are not included in the endowment until payment is received by the Association.

**Spending policy**

The Association has an annual spending policy of 5% of its endowment fund's rolling 12 quarter average fair value. In establishing this policy, the Association considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which may be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

### **Investment return objectives, risk parameters, and strategies**

The Association has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes cash, corporate stocks and bonds, mutual funds, U.S. and municipal government securities and hedge funds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Association expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

### **Funds with deficiencies**

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 to be permanently maintained. Such deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees as permitted by UPMIFA. Deficiencies of this nature are reported as part of unrestricted net assets. Earnings on restricted endowment funds with negative unrestricted balances are first applied to the negative unrestricted balances. After that, earnings are applied to temporarily restricted net assets subject to the restriction of the donor. As of August 31, 2016 and 2015, the amount of permanently restricted endowment funds deficit was \$286,502 and \$469,001, respectively.

## **8. FAIR VALUE MEASUREMENTS:**

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2: Inputs for the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value methods and assumptions for cash and cash equivalents, equity securities, mutual funds and exchange traded funds (ETF) and U.S. Treasury obligations are based on the Level 1 market approach. Investments in debt related instruments are valued on Level 2 inputs using prices obtained from our custodians, which used third party data service providers. Alternative investments are based on the Level 1 market approach as these investments are primarily mutual and exchange traded funds. Investments in beneficial interest in perpetual trusts and hedge funds are valued on Level 3 inputs based on the underlying investments in the assets based on the amounts provided by the custodians of the investments, without adjustment by management. The Association's hedge funds are subject to withdrawal restrictions which require advance notification to the fund managers ranging from 60 – 100 days. Certain funds also have restrictions relating to withdrawal amounts based on total net asset value of the fund.

The carrying amounts of financial instruments including cash equivalents, trade accounts receivable, the line of credit and accounts payable approximated fair value as of August 31, 2016 and 2015 because of the relatively short maturity of these instruments.

There have been no changes in the methodologies used at August 31, 2016 and 2015.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Association's Board of Trustees assesses and approves these policies and procedures. At least annually, management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information. The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period, if applicable.

Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due the level of risk associated with certain investment securities, it is reasonably possible that a change in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

The following tables present the assets as of August 31, 2016 and 2015 that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	August 31, 2016	Quoted prices in active markets for identical assets or liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Cash and cash equivalents	\$ 472,843	472,843	-	-
Equities:				
Consumer goods	10,215	10,215	-	-
Financial	22,247,469	22,247,469	-	-
Mutual funds and ETF's:				
Inflation-protected bond	2,849,441	2,849,441	-	-
Large cap blend	23,362,659	23,362,659	-	-
Large cap growth	6,052,432	6,052,432	-	-
Large cap value	8,318,067	8,318,067	-	-
Mid cap blend	22,710	22,710	-	-
Mid cap growth	62,958	62,958	-	-
Mid cap value	6,515,323	6,515,323	-	-
Small cap blend	35,453	35,453	-	-
Small cap value	9,279,418	9,279,418	-	-
Alternative investments:				
Large cap blend	36,158	36,158	-	-
Large cap growth	49,951	49,951	-	-
Real estate funds	101,714	101,714	-	-
Corporate bonds	5,497,744	-	5,497,744	-
U.S. Treasury bonds	4,129,565	4,129,565	-	-
Agency bonds	3,183,602	-	3,183,602	-
Municipal bonds	38,446	-	38,446	-
Asset backed	751,325	-	751,325	-
Mortgages	37,128	-	37,128	-
Other/foreign bonds	73,109	-	73,109	-
Hedge funds	<u>26,768,351</u>	<u>-</u>	<u>-</u>	<u>26,768,351</u>
	<u>\$ 119,895,081</u>	<u>83,546,376</u>	<u>9,581,354</u>	<u>26,768,351</u>
Beneficial interest in perpetual trusts	<u>\$ 14,571,081</u>	<u>-</u>	<u>-</u>	<u>14,571,081</u>

Cincinnati Museum Association  
Notes to the Financial Statements  
August 31, 2016 and 2015

	August 31, <u>2015</u>	Quoted prices in active markets for identical assets or liabilities <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
Investments:				
Cash and cash equivalents	\$ 876,247	876,247	-	-
Equities:				
Consumer goods	8,268	8,268	-	-
Financial	15,098,042	15,098,042	-	-
Mutual funds and ETF's:				
Inflation-protected bond	1,827,587	1,827,587	-	-
Large cap blend	18,029,506	18,029,506	-	-
Large cap growth	6,464,554	6,464,554	-	-
Large cap value	6,014,745	6,014,745	-	-
Mid cap growth	64,496	64,496	-	-
Mid cap value	6,701,547	6,701,547	-	-
Small cap value	9,349,602	9,349,602	-	-
Alternative investments:				
Large cap blend	110,522	110,522	-	-
Real estate funds	99,403	99,403	-	-
Corporate bonds	5,515,062	-	5,515,062	-
U.S. Treasury bonds	4,374,581	4,374,581	-	-
Agency bonds	3,204,302	-	3,204,302	-
Municipal bonds	39,017	-	39,017	-
Mortgages	612,556	-	612,556	-
Other/foreign bonds	17,177	-	17,177	-
Hedge funds	<u>20,651,739</u>	<u>-</u>	<u>-</u>	<u>20,651,739</u>
	<u>\$ 99,058,953</u>	<u>69,019,100</u>	<u>9,388,114</u>	<u>20,651,739</u>
Beneficial interest in perpetual trusts				
	<u>\$ 14,429,724</u>	<u>-</u>	<u>-</u>	<u>14,429,724</u>

The Association is committed to provide additional capital related to the alternative investments in the amount of \$1,845,000 as of August 31, 2016.

The following is a reconciliation of the Association's assets valued at Level 3 inputs as of August 31, 2016:

	Beneficial Interest in Trusts	Hedge Funds
Balance as of September 1, 2015	\$ 14,429,724	20,651,739
Purchases	-	9,501,666
Withdrawals and sales	-	(3,346,666)
Net unrealized gain on hedge funds	-	136,527
Net realized loss on hedge funds	-	(174,915)
Change in beneficial interest in perpetual trust	<u>141,357</u>	<u>-</u>
Balance as of August 31, 2016	\$ <u>14,571,081</u>	<u>26,768,351</u>
Change in unrealized gains or losses included in the change in net assets, for assets held at the end of the reporting period	\$ <u>141,357</u>	<u>136,527</u>

The following is a reconciliation of the Association's assets valued at Level 3 inputs as of August 31, 2015:

	Beneficial Interest in Trusts	Hedge Funds
Balance as of September 1, 2014	\$ 15,725,145	17,942,135
Purchases	-	2,000,000
Net unrealized gain on hedge funds	-	878,755
Net realized loss on hedge funds	-	(13,714)
Withdrawals and sales	-	(155,437)
Change in beneficial interest in perpetual trust	<u>(1,295,421)</u>	<u>-</u>
Balance as of August 31, 2015	\$ <u>14,429,724</u>	<u>20,651,739</u>
Change in unrealized gains or losses included in the change in net assets, for assets held at the end of the reporting period	\$ <u>(1,295,421)</u>	<u>878,755</u>

#### 9. 401(k) PROFIT SHARING PLAN:

The Association has a defined contribution plan covering all employees. Under the plan, eligible employees may contribute a percentage of their salaries. The Association makes a matching contribution up to 2% of the employee's contribution and a discretionary profit sharing contribution. The plan also allows for a discretionary profit sharing contribution at a percentage of the employee's compensation.

Participants are fully vested in the employer discretionary contributions after three years of service. The Association's contributions and expenses related to the 401(k) plan in 2016 and 2015 were \$69,073 and \$52,792, respectively. No discretionary profit sharing contribution was made during 2016 or 2015.

**10. TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets are available for the following purposes as of August 31:

	<u>2016</u>	<u>2015</u>
Time restricted investments	\$ 45,960,269	40,246,384
Purpose restricted:		
Capital campaign	826,586	2,632,532
Art purchases	1,570,970	45,105
Other	<u>4,638,762</u>	<u>3,366,133</u>
	<u>\$ 52,996,587</u>	<u>46,290,154</u>

**11. PERMANENTLY RESTRICTED NET ASSETS:**

Permanently restricted net assets are available to provide income for the following purposes as of August 31:

	<u>2016</u>	<u>2015</u>
Purpose restrictions	\$ 39,022,668	39,113,071
General operations	4,651,869	4,397,090
Beneficial interest in perpetual trusts	<u>14,571,081</u>	<u>14,429,724</u>
	<u>\$ 58,245,618</u>	<u>57,939,885</u>

**12. LINE OF CREDIT:**

The Association had a line of credit agreement for \$4,000,000 which bore interest at LIBOR plus 1.05% (1.25% at August 31, 2015) which expired September 1, 2015. Upon renewal on September 2, 2015, the line of credit was decreased to \$1,000,000, bore interest at LIBOR plus 1.30% (1.82% at August 31, 2016) and expired September 1, 2016. The line of credit upon renewal was extended until September 1, 2017 and was reduced to \$500,000. The Association had approximately \$420,000 and \$505,000 outstanding on this line of credit at August 31, 2016 and 2015, respectively. The line of credit agreement contains certain covenants. The Association is in compliance with these covenants at August 31, 2016 and 2015. Based on the borrowing rates currently available to the Association, carrying value approximates fair value for the line of credit.

Cincinnati Museum Association  
Schedule of Functional Expenses  
Year Ended August 31, 2016

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 4,007,957	995,324	547,229	5,550,510
Payroll taxes	293,493	70,115	35,891	399,499
Pension expense	48,254	13,354	7,465	69,073
Employee benefits	468,643	145,300	49,864	663,807
Event costs	56,987	30,512	122,659	210,158
Hospitality	31,077	12,355	7,065	50,497
Café/catering	107,178	180,306	-	287,484
Dues and memberships	23,743	12,020	995	36,758
Honorarium	46,199	-	-	46,199
Shipping, postage and exhibition fees	427,170	3,321	27,535	458,026
Installation and framing	313,218	1,394	3,115	317,727
Photography	9,333	-	-	9,333
Supplies	190,110	48,286	6,072	244,468
Promotion and outreach	281,988	9,590	7,415	298,993
Print/typesetting	120,490	3,624	46,094	170,208
Professional development	54,024	28,031	1,960	84,015
Books and periodicals	21,456	736	4,453	26,645
Professional services	297,525	205,630	14,046	517,201
Repairs, maintenance, and other equipment expense	217,187	44,968	4,460	266,615
Service contracts	404,997	80,191	39,603	524,791
Volunteer events and other expense	206,927	-	-	206,927
Project expense	168,523	33,181	12,000	213,704
Gift shop merchandise	282,254	-	-	282,254
Miscellaneous	40,813	11,631	520	52,964
Utilities	496,235	117,132	5,071	618,438
Telephone	35,021	16,904	7,634	59,559
Insurance	197,893	28,189	1,169	227,251
Banking and custodial fees	32,266	57,314	13,616	103,196
Interest	-	8,851	-	8,851
Depreciation	<u>1,484,277</u>	<u>350,352</u>	<u>15,168</u>	<u>1,849,797</u>
	<u>\$ 10,365,238</u>	<u>2,508,611</u>	<u>981,099</u>	<u>13,854,948</u>

See accompanying notes to the financial statements.

Cincinnati Museum Association  
Schedule of Functional Expenses  
Year Ended August 31, 2015

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 3,988,198	989,356	527,687	5,505,241
Payroll taxes	299,369	64,526	36,057	399,952
Pension expense	46,752	-	7,515	54,267
Employee benefits	418,694	113,756	42,111	574,561
Event costs	49,995	29,202	175,486	254,683
Hospitality	30,927	14,383	6,030	51,340
Café/catering	111,972	188,436	-	300,408
Dues and memberships	27,505	4,675	995	33,175
Honorarium	42,023	-	-	42,023
Shipping, postage and exhibition fees	596,110	3,896	22,957	622,963
Installation and framing	260,140	-	-	260,140
Photography	448	-	-	448
Supplies	191,079	40,533	4,029	235,641
Promotion and outreach	305,482	8,075	186	313,743
Print/typesetting	164,038	2,467	45,355	211,860
Professional development	42,167	19,404	244	61,815
Books and periodicals	20,184	1,303	8,977	30,464
Professional services	430,356	188,146	14,990	633,492
Repairs, maintenance, and other equipment expense	275,814	47,263	4,948	328,025
Service contracts	301,859	69,957	41,171	412,987
Volunteer events and other expense	71,197	-	-	71,197
Project expense	177,215	46,061	16,188	239,464
Gift shop merchandise	311,006	-	-	311,006
Miscellaneous	26,583	12,196	369	39,148
Utilities	517,033	122,041	5,284	644,358
Telephone	30,454	14,659	6,620	51,733
Insurance	218,214	26,391	1,112	245,717
Banking and custodial fees	31,895	41,261	17,422	90,578
Interest	-	8,670	-	8,670
Depreciation	<u>1,368,926</u>	<u>323,124</u>	<u>13,990</u>	<u>1,706,040</u>
	<u>\$ 10,355,635</u>	<u>2,379,781</u>	<u>999,723</u>	<u>13,735,139</u>

See accompanying notes to the financial statements.



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