



**Consolidated Financial Statements**

**September 30, 2018**

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## **Independent Auditors' Report**

Board of Trustees  
The William A. Farnsworth Library and Art Museum, Inc.  
Rockland, Maine

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

We have audited the accompanying consolidated financial statements of The William A. Farnsworth Library and Art Museum, Inc. and subsidiary (the "Museum"), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statement of activities, functional expenses, and cash flow for the year then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We did not audit the 2018 and 2017 financial statements of Farnsworth Real Estate, Inc., a controlled entity, which statements reflect assets of \$10,934,482 and \$11,121,925 as of September 30, 2018 and 2017, respectively, and total revenues of \$569,563 and \$542,986 for September 30, 2018 and 2017, respectively. Those statements were audited by other auditors, whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included for Farnsworth Real Estate, Inc. as of September 30, 2018 and 2017, and for the years then ended, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Board of Trustees  
The William A. Farnsworth Library and Art Museum, Inc.

## **Opinion**

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of September 30, 2018 and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The consolidated financial statements of The William A. Farnsworth Library and Art Museum, Inc. and subsidiary as of September 30, 2017, were audited by Macpage LLC, who merged with Wipfli LLP as of August 1, 2018, and whose report, dated February 15, 2018, expressed an unmodified opinion on those statements.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information shown on pages 24 and 25, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and accordingly, we do not express an opinion or provide any other assurance on it.

*Wipfli LLP*

South Portland, Maine  
March 5, 2019

## Consolidated Statements of Financial Position

September 30,

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash & cash equivalents	\$ 382,153	\$ 27,796
Cash - restricted	105,761	153,948
Accounts receivable	11,845	10,762
Pledges receivable, current	571,068	74,460
Inventory	213,164	174,826
Prepaid expenses	59,730	132,070
<b>Total Current Assets</b>	<u>1,343,721</u>	<u>573,862</u>
<b>Assets Whose Use is Limited</b>		
Endowment investments	12,854,145	11,827,480
Pooled income fund	151,633	149,763
Gift annuity fund	22,756	30,817
Perpetual trust held by others	7,022,217	6,833,730
Charitable lead interest trust held by others	297,391	348,821
<b>Total Assets Whose Use is Limited</b>	<u>20,348,142</u>	<u>19,190,611</u>
<b>Other Assets</b>		
Cash - restricted	214,852	263,647
Pledges receivable	2,277,850	99,250
Note receivable	7,428,935	7,428,935
Other asset	55,729	45,035
<b>Total Other Assets</b>	<u>9,977,366</u>	<u>7,836,867</u>
<b>Property and Equipment, Net</b>	<u>10,105,670</u>	<u>10,333,195</u>
<b>Total Assets</b>	<u>\$ 41,774,899</u>	<u>\$ 37,934,535</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 215,773	\$ 331,408
Accrued expenses	87,813	130,406
Deferred revenue and other liabilities	8,137	10,462
Current portion of long term debt	49,697	57,674
Line of credit	360,025	778,167
<b>Total Current Liabilities</b>	<u>721,445</u>	<u>1,308,117</u>
<b>Long Term Debt - Net of Current Portion</b>	<u>12,667,315</u>	<u>12,704,185</u>
<b>Total Liabilities</b>	<u>13,388,760</u>	<u>14,012,302</u>
<b>Net Assets</b>		
Unrestricted:		
Designated by the Board of Trustees	990,767	938,859
Undesignated	4,564,803	4,326,275
	<u>5,555,570</u>	<u>5,265,134</u>
Temporarily restricted	4,947,404	1,479,161
Permanently restricted	17,883,165	17,177,938
<b>Total Net Assets</b>	<u>28,386,139</u>	<u>23,922,233</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 41,774,899</u>	<u>\$ 37,934,535</u>

See accompanying independent auditors' report.  
The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statement of Activities

Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenue</b>				
Admissions	\$ 580,457			\$ 580,457
Contributions	1,154,896	\$ 4,515,253		5,670,149
Memberships	209,974			209,974
Endowment utilized in operations	509,100			509,100
Income from perpetual trust	338,676			338,676
Building rent	88,843			88,843
Gift shop sales	517,644			517,644
Other sources	136,743			136,743
Net assets released from restrictions	622,305	(622,305)		
<b>Total Operating Revenue</b>	<u>4,158,638</u>	<u>3,892,948</u>		<u>8,051,586</u>
<b>Operating Expenses:</b>				
Program services:				
Curatorial	1,674,833			1,674,833
Education	511,384			511,384
Museum store	500,207			500,207
Subtotal	<u>2,686,424</u>			<u>2,686,424</u>
Management and administrative	766,844			766,844
Development	842,270			842,270
Depreciation	470,161			470,161
Total operating expenses	<u>4,765,699</u>			<u>4,765,699</u>
<b>Change in Net Assets - Operations</b>	<u>(607,061)</u>	<u>3,892,948</u>		<u>3,285,887</u>
<i>Change in Net Assets - Operations before Depreciation</i>	<u>(136,900)</u>	<u>3,892,948</u>		<u>3,756,048</u>
<b>Non-Operating Revenue (Expense)</b>				
Contributions			514,870	514,870
Accessions	(26,000)			(26,000)
Investment income	163,784	852,177		1,015,961
Change in value of split interest agreements	(8,061)		190,357	182,296
Net assets released from restrictions	1,276,882	(1,276,882)		
Endowment utilized in operations	(509,108)			(509,108)
<b>Change in Net Assets - Non-Operating</b>	<u>897,497</u>	<u>(424,705)</u>	<u>705,227</u>	<u>1,178,019</u>
<b>Change in Net Assets</b>	<u>290,436</u>	<u>3,468,243</u>	<u>705,227</u>	<u>4,463,906</u>
<b>Net Assets - Beginning of Year</b>	<u>5,265,134</u>	<u>1,479,161</u>	<u>17,177,938</u>	<u>23,922,233</u>
<b>Net Assets - End of Year</b>	<u>\$ 5,555,570</u>	<u>\$ 4,947,404</u>	<u>\$ 17,883,165</u>	<u>\$ 28,386,139</u>

See accompanying independent auditors' report.  
The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statement of Activities

Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenue</b>				
Admissions	\$ 594,212			\$ 594,212
Contributions	1,399,569	\$ 272,500		1,672,069
Memberships	209,801			209,801
Endowment utilized in operations	567,700			567,700
Income from perpetual trust	323,588			323,588
Building rent	84,745			84,745
Gift shop sales	600,076			600,076
Other sources	150,895			150,895
Net assets released from restrictions	276,732	(276,732)		
<b>Total Operating Revenue</b>	<u>4,207,318</u>	<u>(4,232)</u>		<u>4,203,086</u>
<b>Operating Expenses:</b>				
Program services:				
Curatorial	1,704,477			1,704,477
Education	565,497			565,497
Museum store	534,449			534,449
Subtotal	<u>2,804,423</u>			<u>2,804,423</u>
Management and administrative	853,794			853,794
Development	712,566			712,566
Depreciation	475,313			475,313
Total operating expenses	<u>4,846,096</u>			<u>4,846,096</u>
<b>Change in Net Assets - Operations</b>	<u>(638,778)</u>	<u>(4,232)</u>		<u>(643,010)</u>
<i>Change in Net Assets - Operations before Depreciation</i>	<u>(163,465)</u>	<u>(4,232)</u>		<u>(167,697)</u>
<b>Non-Operating Revenue (Expense)</b>				
Contributions		15,000	\$ 96,397	111,397
Accessions	(1,600)			(1,600)
Deaccessions		2,599		2,599
Investment income (loss)	154,729	981,893		1,136,622
Change in value of split interest agreements		(9,024)	400,120	391,096
Net assets released from restrictions	409,796	(409,796)		
Endowment utilized in operations	(567,700)			(567,700)
<b>Change in Net Assets - Non-Operating</b>	<u>(4,775)</u>	<u>580,672</u>	<u>496,517</u>	<u>1,072,414</u>
<b>Change in Net Assets</b>	<u>(643,553)</u>	<u>576,440</u>	<u>496,517</u>	<u>429,404</u>
<b>Net Assets - Beginning of Year</b>	<u>5,908,687</u>	<u>902,721</u>	<u>16,681,421</u>	<u>23,492,829</u>
<b>Net Assets - End of Year</b>	<u>\$ 5,265,134</u>	<u>\$ 1,479,161</u>	<u>\$ 17,177,938</u>	<u>\$ 23,922,233</u>

See accompanying independent auditors' report.  
The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statement of Functional Expenses

Year Ended September 30, 2018

	Program Services				Supporting Services			Total Expenses
	Curatorial	Education	Museum Store	Total Program Services	Management and Administrative	Development	Total Supporting Services	
<b>Salaries</b>	\$ 793,354	\$ 330,175	\$ 171,740	\$ 1,295,269	\$ 292,313	\$ 260,699	\$ 553,012	\$ 1,848,281
<b>Employee Benefits and Taxes</b>	142,048	47,229	27,202	216,479	51,280	32,257	83,537	300,016
<b>Total Salaries and Related Expenses</b>	935,402	377,404	198,942	1,511,748	343,593	292,956	636,549	2,148,297
<b>Expenses</b>								
Cost of sales - inventory			240,063	240,063				240,063
Utilities	202,843	27,046	5,409	235,298	29,750	5,409	35,159	270,457
Exhibits	178,158	4,316		182,474				182,474
Advertising	31,953	10,433	2,312	44,698	22,509	868	23,377	68,075
Contract labor		15,300		15,300				15,300
Maintenance	64,455	8,594	1,719	74,768	(1,184)	1,719	535	75,303
Insurance	68,861	6,489	1,298	76,648	24,517	1,298	25,815	102,463
Other services	31,886	2,806	624	35,316	(8,800)	16,557	7,757	43,073
Supplies and materials	31,010	15,990	12,581	59,581	19,237	10,937	30,174	89,755
Cultivation	1,123	4,857		5,980	4,407	178,166	182,573	188,553
Equipment expenses	16,210	2,161	432	18,803	2,378	432	2,810	21,613
Travel and entertainment	10,454	4,500	251	15,205	27	5	32	15,237
Professional and other fees	15,966	3,924	15,781	35,671	98,296	272,699	370,995	406,666
Printing	5,792	4,887	84	10,763		11,788	11,788	22,551
Interest					179,547		179,547	179,547
Postage and freight	2,277	2,028	8,538	12,843	1,098	10,096	11,194	24,037
Lease and rental expense					34,053		34,053	34,053
Telephone and internet	12,002	1,346	269	13,617	1,481	269	1,750	15,367
Software maintenance	5,927		11,114	17,041	1,123	36,020	37,143	54,184
Security					1,023		1,023	1,023
Employee development	2,996	15,749	243	18,988	20	129	149	19,137
Dues and subscriptions	8,461	1,586	197	10,244	584	2,837	3,421	13,665
Bad debts					2,000		2,000	2,000
Other	49,057	1,968	350	51,375	11,185	85	11,270	62,645
<b>Total Expenses Before Depreciation</b>	1,674,833	511,384	500,207	2,686,424	766,844	842,270	1,609,114	4,295,538
<b>Depreciation</b>	295,256	43,726	28,209	367,191	72,879	30,091	102,970	470,161
<b>Total Expenses</b>	\$ 1,970,089	\$ 555,110	\$ 528,416	\$ 3,053,615	\$ 839,723	\$ 872,361	\$ 1,712,084	\$ 4,765,699

See accompanying independent auditors' report.  
The accompanying notes are an integral part of these consolidated financial statements.



## Consolidated Statement of Functional Expenses

Year Ended September 30, 2017

	Program Services				Supporting Services			Total Expenses
	Curatorial	Education	Museum Store	Total Program Services	Management and Administrative	Development	Total Supporting Services	
<b>Salaries</b>	\$ 770,305	\$ 333,585	\$ 161,858	\$ 1,265,748	\$ 309,360	\$ 347,354	\$ 656,714	\$ 1,922,462
<b>Employee Benefits and Taxes</b>	133,021	57,764	30,726	221,511	60,540	45,191	105,731	327,242
<b>Total Salaries and Related Expenses</b>	903,326	391,349	192,584	1,487,259	369,900	392,545	762,445	2,249,704
<b>Expenses</b>								
Cost of sales - inventory			285,743	285,743				285,743
Utilities	177,840	23,712	4,742	206,294	26,083	4,742	30,825	237,119
Exhibits	146,064	5,313		151,377				151,377
Advertising	111,051	22,598	2,972	136,621	39,812	5,524	45,336	181,957
Contract labor		28,335		28,335				28,335
Maintenance	84,516	11,269	2,254	98,039	(1,415)	2,254	839	98,878
Insurance	73,716	6,238	1,248	81,202	28,302	1,248	29,550	110,752
Other services	26,060	3,158	660	29,878	(6,934)	27,536	20,602	50,480
Supplies and materials	29,386	19,397	9,597	58,380	21,826	12,434	34,260	92,640
Cultivation	1,343	6,576		7,919	2,805	174,275	177,080	184,999
Equipment expenses	18,239	2,432	486	21,157	2,673	486	3,159	24,316
Travel and entertainment	23,995	9,730	881	34,606	1,569	1,490	3,059	37,665
Professional and other fees	14,991	5,181	17,509	37,681	102,068	45,606	147,674	185,355
Printing	17,196	3,060	241	20,497	384	11,862	12,246	32,743
Interest					200,276		200,276	200,276
Postage and freight	1,781	1,239	10,149	13,169	906	7,940	8,846	22,015
Lease and rental expense					38,693		38,693	38,693
Telephone and internet	12,008	1,349	270	13,627	1,483	270	1,753	15,380
Software maintenance	5,600		2,215	7,815	116	22,727	22,843	30,658
Security					7,558		7,558	7,558
Employee development	564	19,825	162	20,551	130	42	172	20,723
Dues and subscriptions	14,873	2,335	350	17,558	1,925	1,462	3,387	20,945
Bad debts			1,865	1,865	1,395		1,395	3,260
Other	41,928	2,401	521	44,850	14,239	123	14,362	59,212
<b>Total Expenses Before Depreciation</b>	1,704,477	565,497	534,449	2,804,423	853,794	712,566	1,566,360	4,370,783
<b>Depreciation</b>	298,495	44,203	28,518	371,216	73,677	30,420	104,097	475,313
<b>Total Expenses</b>	<u>\$ 2,002,972</u>	<u>\$ 609,700</u>	<u>\$ 562,967</u>	<u>\$ 3,175,639</u>	<u>\$ 927,471</u>	<u>\$ 742,986</u>	<u>\$ 1,670,457</u>	<u>\$ 4,846,096</u>

See accompanying independent auditors' report.

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

## Consolidated Statements of Cash Flows

Years Ended September 30,

	2018	2017
<b>Cash flows From Operating Activities:</b>		
Change in net assets	\$ 4,463,906	\$ 429,404
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net gain on investments	(873,644)	(1,021,444)
Change in value of split interest agreements	(182,296)	(391,096)
Amortization	64,029	49,981
Contributions for endowment and collections	(514,870)	(111,397)
Depreciation	470,161	475,313
Purchase of collection items	26,000	1,600
Gain from sale of collection items		(2,599)
(Increase) decrease in:		
Accounts receivable	(1,083)	7,475
Pledges receivable	(2,680,208)	(4,683)
Inventory	(38,338)	27,867
Prepaid expenses	72,340	(85,303)
Other asset	(10,694)	2,003
Increase (decrease) in:		
Accounts payable	(115,635)	31,191
Accrued expenses	(42,593)	78,527
Deferred revenue and other liabilities	(2,325)	(2,388)
<b>Net Cash Flows From Operating Activities</b>	<b><u>634,750</u></b>	<b><u>(515,549)</u></b>
<b>Cash Flows From Investing Activities:</b>		
Net deaccessions (accessions) of collection items	(26,000)	999
Proceeds from sale of investments	2,086,141	2,961,799
Purchase of investments	(2,239,162)	(2,447,853)
Decrease in restricted cash	96,982	96,874
Purchase of property and equipment	(242,636)	(69,130)
<b>Net Cash Flows From Investing Activities</b>	<b><u>(324,675)</u></b>	<b><u>542,689</u></b>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	(57,446)	(42,633)
Net proceeds (repayments) on line of credit	(418,142)	30,377
Contributions for endowment and collections	519,870	11,397
<b>Net Cash Flows From Financing Activities</b>	<b><u>44,282</u></b>	<b><u>(859)</u></b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>\$ 354,357</b>	<b>26,281</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b><u>27,796</u></b>	<b><u>1,515</u></b>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 382,153</u></b>	<b><u>\$ 27,796</u></b>
<b>Supplemental Cash Flow Disclosures:</b>		
Cash paid for interest	\$ 175,266	\$ 200,276

See accompanying independent auditors' report.

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

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

The William A. Farnsworth Library and Art Museum, Inc. (the Museum) is an independent not-for-profit organization dedicated to the collection, preservation, exhibition, research and interpretation of American art, with an emphasis on the art of the State of Maine and New England. Providing context for its art collection, an important focus of the Museum is the preservation and interpretation of two historic homes, the Farnsworth Homestead and the Olson House. The Museum is located in Rockland, Maine.

Farnsworth Real Estate, Inc. (the "Corporation") was formed as a public benefit corporation on February 9, 2015, under the laws of the State of Maine. The Corporation was organized to operate exclusively for charitable, religious, educational and scientific purposes by conducting and supporting activities which promote the advancement and further the aims of the Museum. The Corporation shall carry out its purposes by operating as a supporting organization as described in Section 509(a)(3) of the Internal Revenue Code.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Museum and another entity that have been consolidated due to common control. All material inter-company accounts and transactions have been eliminated in the consolidation.

#### Basis of Presentation

The consolidated financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. As a result, revenues and gains are reported when earned and expenses and losses are recorded when incurred. Net assets, support, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported, as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Museum and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Museum. Generally, the donors of the assets permit the Museum to use all or part of the income earned on related investments for general or specific purposes.

#### Use of Estimates

The presentation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market funds and petty cash. For purposes of the statement of cash flows, management considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Accounts Receivable

The Museum considers receivables to be uncollectible after all efforts for collection have been exhausted. Amounts deemed uncollectible are reserved through a charge to bad debt expense and a credit to allowance for doubtful accounts. At September 30, 2018 and 2017, all amounts were considered fully collectible and no allowance was deemed necessary.

#### Pledges Receivable

The Museum records unconditional promises to give as revenue and pledges receivable in the period received. Promises to give are reported net of an allowance for uncollectible amounts and discounted to the net present value of the future cash flows. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

#### Inventory

Inventory is valued at the lower of cost (first-in, first-out basis) or market (net realizable value). Inventory consists of products for resale. Contributed inventory is recorded at fair market value on the date the inventory was received.

#### Investments

Investments are stated at fair value. Realized and unrealized gains and losses are allocated to unrestricted, temporarily and permanently restricted net assets based on donor stipulations and in accordance with the Maine Uniform Prudent Management of Institutional Funds Act. Donated securities are recorded at fair value on the date received from the donor.

#### Endowment Funds

##### *Investment and Endowment Spending Policy*

The investment objective for the Museum's endowment funds is to provide average total earnings of 5%, plus the CPI for inflation. Funds will be invested to yield the rate on a "total return" basis (income, capital gains, and unrealized appreciation), commensurate with moderate risk of the total portfolio.

The Museum has implemented an endowment spending policy to appropriate investment income equal to 5% of the invested funds for current operations, based on the investments' average fair value for the preceding 16 quarters.

##### *Relevant Law*

The Board of Trustees of the Museum has interpreted the Maine Uniform Prudent Management of Institutional Funds Act (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. As a result, the Museum classifies as permanently restricted net assets the original value of gifts donated and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. 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 Museum's Board of Trustees in a manner consistent with the standard of prudence prescribed in UPMIFA. UPMIFA does not include board designated funds in its definition of endowment funds.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Property and Equipment

Purchased property and equipment is recorded at cost. Donations of property and equipment are recorded at fair value on the date of the gift. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Museum capitalizes additions of property and equipment with a cost, or fair value if donated, in excess of \$2,000. Ordinary repairs and maintenance costs are expensed as incurred. Property and equipment are depreciated using the straight-line method over their estimated useful lives which range from 3 to 40 years.

#### Impairment of long-lived assets

In accordance with accounting guidance, the Museum applies accounting for impairment or disposal of long-lived assets. The Museum reviews its real property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. No impairment loss was recognized during the years ended 2018 and 2017.

#### Collection

The collection of the Museum consists of approximately 15,000 objects, including paintings, watercolors, sculpture, prints, drawings, photographs, and historical artifacts (primarily related to the Homestead and Olson House). Consistent with the Museum's mission statement, the collection emphasizes works by American artists, especially artists who have worked in Maine. As a whole, the collection presents a survey of Maine's role in the history of American art from the late 18th century to the present. The Museum continues to actively collect American art through purchase and gifts. All works in the permanent collection are assigned a unique "accession" number and placed in secure storage when not on exhibit at the Museum or on loan to other museums. The Museum only lends to galleries and museums that meet prescribed security and climate standards and provide all risk insurance coverage. Records, including object, artist and donor files, are maintained for each work of art. The collection is inventoried and surveyed by staff and qualified conservators on an annual basis. The Museum maintains a blanket insurance policy of \$60 million for the collection and work on loan. Although a private, independent institution, the collection is maintained, added to, exhibited and interpreted for the education and enjoyment of the general public.

The Museum's policy is not to capitalize the collection; therefore, the value of the library and art collection held by the Museum is not included in the accompanying consolidated financial statements. Purchases of collection items are made from proceeds of deaccessions and gifts of cash and income from certain trusts restricted by donors for art acquisitions. Purchased additions to the collection totaled \$26,000 and \$1,600 during the years ended 2018 and 2017, respectively, and proceeds from sales of deaccessed items totaled \$0 and \$2,599 during the years ended 2018 and 2017, respectively.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### Donated Services

The Museum is the beneficiary of the efforts of volunteers, the value of whose donated time and services is not included in these consolidated financial statements as they do not meet the criteria for recording under generally accepted accounting principles. However, a substantial number of nonprofessional volunteers have donated significant amounts of their time in support of the Museum's programs. The Museum estimated the hours of nonprofessional services to be approximately 3,900 hours and 3,500 hours for the years ended 2018 and 2017, respectively.

The Museum also receives donated professional services, which would typically need to be purchased if not provided by donation. The estimated fair value of the services is recognized in the consolidated statement of activities. Total gift revenue recognized for donated professional services was \$10,600 and \$123,859 for the year ended 2018 and 2017, respectively.

#### Non-Operating Activities

Non-operating activities consist of contributions for non-operating purposes, such as capital projects, life income funds, trusts and remainder interests, endowment, endowment income, accession and deaccessions.

#### Allocation of Expenses

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

#### Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended 2018 and 2017 were \$68,075 and \$181,957, respectively.

#### Income Taxes

The Museum and the Corporation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the tax positions and concluded that there are no uncertain tax positions that required adjustment to the consolidated financial statements. The tax returns are subject to U.S. federal and state examinations by tax authorities for three years following the filing of the return.

## Notes to Consolidated Financial Statements

September 30, 2018

### NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Reclassifications

Certain amounts in the 2017 financial statement have been reclassified to conform to the 2018 presentation. There was no effect on the 2017 change in net assets as a result of such reclassifications.

### NOTE 2 – CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS

The Museum maintains its cash and restricted cash in multiple financial institutions. At times, these balances may exceed the federal insurance limits; however, the Museum has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances.

### NOTE 3 - RESTRICTED CASH

Fee and Expense Reserve – The reserve is pursuant to the New Market Tax Credit financing for payment of future loan expenses. As of September 30, 2018 and 2017, the balance was \$214,852 and \$263,647, respectively.

Program Reserve – The reserve is established from loan proceeds to be used for community program costs. As of September 30, 2018 and 2017, the balance was \$105,761 and \$153,948, respectively.

### NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable for each of the future years, are expected to be received, as follows:

	2018	2017
Less than one year	\$ 809,579	\$ 74,460
One to five years	1,937,136	45,000
More than five years	340,714	55,000
	<u>3,087,429</u>	<u>174,460</u>
Allowance for uncollectible pledges	(750)	(750)
Discount on pledges receivable	(237,761)	
Pledges receivable, net	<u>\$ 2,848,918</u>	<u>\$ 173,710</u>

Pledges receivable consist of the following as of September 30:

	2018	2017
Capital campaign	\$ 2,564,994	\$ -
Annual fund and other	442,435	88,710
Endowment	80,000	85,000
	<u>\$ 3,087,429</u>	<u>\$ 173,710</u>

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 5 – ASSETS WHOSE USE IS LIMITED

The investments (excluding those held by others) consisted of the following at:

	September 30, 2018			
	Pooled Income Fund	Charitable Gift Annuity	Endowment Investments	Total
Cash and cash equivalents	\$ 5,845	\$ 22,756	\$ 343,712	\$ 372,313
Mutual funds – fixed income	93,460			93,460
Mutual funds – equities	6,561		7,434,174	7,440,735
Equities	45,767		2,188,955	2,234,722
U.S. Government bonds			1,678,922	1,678,922
Corporate bonds			714,161	714,161
International bonds			78,076	78,076
Alternative investments			416,145	416,145
	<u>\$ 151,633</u>	<u>\$ 22,756</u>	<u>\$ 12,854,145</u>	<u>\$ 13,028,534</u>

  

	September 30, 2017			
	Pooled Income Fund	Charitable Gift Annuity	Endowment Investments	Total
Cash and cash equivalents	\$ 7,367	\$ 30,817	\$ 615,770	\$ 653,954
Mutual funds – fixed income	60,357			60,357
Mutual funds – equities	39,357		6,812,296	6,851,653
Equities	42,682		1,613,868	1,656,550
U.S. Government bonds			1,364,833	1,364,833
Corporate bonds			842,832	842,832
International bonds			135,482	135,482
Alternative investments			442,399	442,399
	<u>\$ 149,763</u>	<u>\$ 30,817</u>	<u>\$ 11,827,480</u>	<u>\$ 12,008,060</u>

Net investment income consisted of the following for the years ended September 30:

	2018	2017
Net gain	\$ 873,644	\$ 1,021,444
Interest and dividend income	169,277	139,963
Investment fees	(26,960)	(24,785)
Total investment income	<u>\$ 1,015,961</u>	<u>\$ 1,136,622</u>

### Commitments to Invest

Certain alternative investments have commitments to invest additional amounts in private equity funds of \$131,000 which, if requested, are expected to be satisfied through December 31, 2019. The limitations and restrictions on the Museum's ability to redeem or sell the private equity funds vary by investment.



## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 5 – ASSETS WHOSE USE IS LIMITED – CONTINUED

#### Split Interest Agreements

Pooled Income Fund – A fund was established for the management and investment of cash and property transferred by donors to the Museum. The fund provides for the payment of distributions to the donor (grantor) over each designated beneficiary's lifetime. At the end of each beneficiary's lifetime, the remaining assets are transferred to the operating assets of the Museum. The net present value of these assets to be received was calculated using actuarial tables at the date the gift was received assuming a rate of return of 6%. The difference between the fair value of the assets received and the calculated net present value of the assets to be received is reflected as deferred revenue in the statement of financial position. Deferred revenue is amortized using the straight-line method over an actuarially determined life.

Charitable Gift Annuity – The Museum entered into an irrevocable agreement with a donor whereby in exchange for the gift from the donor, the Museum is obligated to provide an annual annuity to the donor equal to 9.2% of the fair value of the gift at the date of the agreement for the life time of the annuitant.

Beneficial Interest in Perpetual Trusts – The Museum is the beneficiary of several trusts created by donors, the assets of which are not in the possession of the Museum. The Museum has legally enforceable rights or claims to such assets, including the right to related income. The Museum's interest in these trusts is included in the consolidated financial statements at the fair value of the underlying investments. As a result of court rulings effective January 2000, the Trustee is permitted to appropriate for distribution to the Museum the net realized, and unrealized appreciation of all trusts as determined to be prudent by the Trustee.

The Museum received a distribution of \$338,676 and \$323,588 for the years ended 2018 and 2017, respectively, related to the Museum's beneficial interest in perpetual trusts.

Charitable Lead Annuity Trust – The Museum is also the beneficiary of a charitable lead annuity trust created by a donor in 2006, the assets of which are not in the possession of the Museum. The Museum has the right to receive annual installments of \$68,920 over 16 years. The present value of the annuity payments, using a 5% discount rate, was \$297,391 and \$348,821 at September 30, 2018 and 2017, respectively.

### NOTE 6 – ENDOWMENT FUNDS

The endowment consists of donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowments funds, including funds designated by the Board of Trustees, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees appropriated \$509,108 and \$640,419 from endowment funds for the years ended 2018 and 2017, respectively.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 6 – ENDOWMENT FUNDS – CONTINUED

Endowment net asset compositions by type of fund at are, as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>September 30, 2018</b>				
Donor-restricted endowment funds	\$ (186,031)	\$ 1,397,207	\$ 10,797,775	\$ 12,008,951
Board-designated endowment funds	990,767	6,060		996,827
	<u>\$ 804,736</u>	<u>\$ 1,403,267</u>	<u>\$ 10,797,775</u>	<u>\$ 13,005,778</u>
<b>September 30, 2017</b>				
Donor-restricted endowment funds	\$ (248,476)	\$ 1,005,464	\$ 10,276,035	\$ 11,033,023
Board-designated endowment funds	938,478	5,742		944,220
	<u>\$ 690,002</u>	<u>\$ 1,011,206</u>	<u>\$ 10,276,035</u>	<u>\$ 11,977,243</u>

Changes in endowment net assets are, as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>September 30, 2018</b>				
Beginning of year	\$ 690,002	\$ 1,011,206	\$ 10,276,035	\$ 11,977,243
Contributions			519,870	519,870
Investment return:				
Investment income, net of fees	12,429	131,700		144,129
Net gain	220,327	651,447	1,870	873,644
Amount appropriated	(118,022)	(391,086)		(509,108)
End of year	<u>\$ 804,736</u>	<u>\$ 1,403,267</u>	<u>\$ 10,797,775</u>	<u>\$ 13,005,778</u>
<b>September 30, 2017</b>				
Beginning of year	\$ 768,351	\$ 436,756	\$ 10,262,193	\$ 11,467,300
Contributions			11,397	11,397
Investment return:				
Investment income, net of fees	11,656	105,865		117,521
Net gain	212,972	806,027	2,445	1,021,444
Amount appropriated	(302,977)	(337,442)		(640,419)
End of year	<u>\$ 690,002</u>	<u>\$ 1,011,206</u>	<u>\$ 10,276,035</u>	<u>\$ 11,977,243</u>

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic dollar value of permanently restricted contributions. Deficiencies of this nature are reported in unrestricted net assets and amounted to \$186,031 and \$248,746 as of September 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation that was deemed prudent by the Board of Trustees.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 7 - NOTE RECEIVABLE

Note receivable consists of a note receivable from USBDC Investment Fund 119, LLC, interest due monthly at 1% for seven years, then amortizing payments of \$35,507 a month beginning December 2022. The note matures in February 2042. The note is secured by substantially all the assets of the investment LLC.

### NOTE 8 - PROPERTY AND EQUIPMENT

Investment in real property consisted of the following at September 30,

	2018	2017
Land	\$ 244,958	\$ 244,958
Buildings and improvements	16,353,030	16,198,283
Equipment, furniture and fixtures	586,553	498,544
Subtotal	<u>17,184,541</u>	<u>16,941,785</u>
Accumulated depreciation	<u>(7,078,871)</u>	<u>(6,608,590)</u>
Total	<u>\$ 10,105,670</u>	<u>\$ 10,333,195</u>

### NOTE 9 – LINE OF CREDIT

The Museum has an \$850,000 revolving line of credit with a local bank. Terms of the line of credit agreement provide for advances with interest at the Wall Street Journal's prime rate. The interest rate, as of September 30, 2018 and 2017, was 5.25% and 4.25%, respectively. The agreement is subject to renewal in September 2019. Advances on the line of credit are secured by all business assets. There was \$360,025 and \$778,167 outstanding advances under this line of credit as of September 30, 2018 and 2017, respectively.

### NOTE 10 –LONG TERM DEBT

Long-term debt consisted of the following:

#### First mortgage

The Museum had a mortgage with The First N.A. (the "Lender") in the original amount of \$2,000,000. In conjunction with the transfer of property under common control, the Corporation assumed this obligation for the outstanding principal balance of \$1,310,405. The loan bears interest at 3.875% through February 15, 2019 and prime less .25% (not to exceed 7.625%) thereafter. The loan matures in December 15, 2032. The outstanding principal balance was \$1,109,611 and \$1,167,057 as of September 30, 2018 and 2017, respectively.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 10 –LONG TERM DEBT – CONTINUED

#### New Market Tax Credit (NMTC) financing

Note payable with CCM Community Development LI, LLC (“CCM”) in the amount of \$2,212,835 (“CCM Note A”). The note bears interest at 1.291%. Commencing in May 2015, monthly payments of interest only are due through December 2022. Commencing in January 2023, monthly payments of principal and interest in an amount sufficient to amortize the outstanding balance will become due through maturity in December 2049. September 30, 2018 and 2017, the outstanding balance is \$2,212,835.

Note payable with CCM in the amount of \$2,271,065 (“CCM Note B”). The note bears interest at 1.291%. Commencing in May 2015, monthly payments of interest only are due through December 2022. Commencing in January 2023, monthly payments of principal and interest in an amount sufficient to amortize the outstanding balance will become due through maturity in December 2049. As of September 30, 2018 and 2017, the outstanding balance is \$2,271,065.

Note payable with MHIC NE CDE II Subsidiary 32 LLC (“MHIC”) in the amount of \$5,216,100 (“MHIC Note A”). The note bears interest at 0.966%. Commencing in May 2015, monthly payments of interest only are due through December 2022. Commencing in January 2023, monthly payments of principal and interest in an amount sufficient to amortize the outstanding balance will become due through maturity in December 2049. September 30, 2018 and 2017, the outstanding balance is \$5,216,100.

Note payable with MHIC NE CDE II Subsidiary 32 LLC (“MHIC”) in the amount of \$2,301,400 (“MHIC Note B”). The note bears interest at 0.966%. Commencing in May 2015, monthly payments of interest only are due through December 2022. Commencing in January 2023, monthly payments of principal and interest in an amount sufficient to amortize the outstanding balance will become due through maturity in December 2049. As of September 30, 2018 and 2017, the outstanding balance is \$2,301,400.

The following is a summary of principal maturities of long-term debt:

	First Mortgage	CCM (Note A)	CCM (Note B)	MHIC (Note A)	MHIC (Note B)	Total
September 30, 2019	\$ 49,697	\$ -	\$ -	\$ -	\$ -	\$ 49,697
2020	47,383					47,383
2021	51,415					51,415
2022	55,534					55,534
2023	59,983					59,983
Thereafter	<u>845,599</u>	<u>2,212,835</u>	<u>2,271,065</u>	<u>5,216,100</u>	<u>2,301,400</u>	<u>12,846,999</u>
	<u>\$ 1,109,611</u>	<u>\$ 2,212,835</u>	<u>\$ 2,271,065</u>	<u>\$ 5,216,100</u>	<u>\$ 2,301,400</u>	<u>\$ 13,111,011</u>

The first mortgage is collateralized by a portion of the Real Estate. The CCM and MHIC loans are collateralized by all the real estate.

Debt issuance costs, net of accumulated amortization, totaled \$393,999 and \$406,598 as of September 30, 2018 and 2017, respectively, and is related to the MHIC Note A. Debt issuance costs on the above note are being amortized using an imputed rate of 1.653%.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 11 – NET ASSETS

Unrestricted board-designated net assets are for the following purposes at September 30:

	2018	2017
Olson House	\$ 245,099	\$ 232,229
Collections	745,668	706,630
	<u>\$ 990,767</u>	<u>\$ 938,859</u>

Temporarily restricted net assets are available for the following purposes at September 30:

	2018	2017
Beneficial interest in charitable lead trust	\$ 297,391	\$ 348,821
Education – Gamble	214,205	176,260
Education – Other	154,078	64,577
Facilities	1,171,147	823,696
Capital Campaign – Annual Fund	330,000	
Capital Campaign – Other	2,697,729	
Other exhibits and projects	65,114	56,069
Operations	9,183	5,419
Catalogs and other	8,557	4,319
Total	<u>\$ 4,947,404</u>	<u>\$ 1,479,161</u>

Permanently restricted net assets are as follows at September 30:

	2018	2017
Andrew Wyeth Memorial endowment for facilities	\$ 8,130,387	\$ 8,130,387
General operations endowment	1,529,500	1,520,653
Gamble education endowment	508,405	508,405
Capital Campaign	500,000	
Pooled income fund	151,633	149,763
Collection endowment	31,023	25,000
Education endowment	10,000	10,000
	<u>10,860,948</u>	<u>10,344,208</u>
Beneficial interests in perpetual trusts	7,022,217	6,833,730
Total permanently restricted net assets	<u>\$17,883,165</u>	<u>\$17,177,938</u>

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 11 – NET ASSETS – CONTINUED

Net assets released from restrictions consist of the following for the years ended:

	2018	2017
Debt reduction	\$ 600,000	
Exhibits and projects	41,989	\$ 29,676
Education	168,930	237,466
Capital projects and facilities	190,489	
Operations	536,339	116,506
Facility maintenance	361,440	302,880
Total net assets released from restrictions	<u>\$ 1,899,187</u>	<u>\$ 686,528</u>
Operating net assets released from restrictions	\$ 622,305	\$ 276,732
Non-operating net assets released from restrictions	1,276,882	409,796
	<u>\$ 1,899,187</u>	<u>\$ 686,528</u>

### NOTE 12 – LEASES

The Museum has entered into two operating leases for office equipment.

Future minimum lease obligations consisted of the following at September 30, 2018:

2019	\$ 19,008
2020	19,008
2021	14,487
2022	693
Total	<u>\$ 53,196</u>

### NOTE 13 – PENSION BENEFIT PLAN

The Museum maintains a 403(b) plan that covers substantially all employees who work at least 1,000 hours annually. Contributions to the plan are discretionary. There were no contributions to the plan for the years ended 2018 and 2017.

### NOTE 14 – FAIR VALUE MEASUREMENTS

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical assets and liabilities that an entity has the ability to access at a measurement date.

Level 2 – Pricing inputs other than exchange quoted prices in active markets that are observable for the specific asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs that are unobservable inputs for the asset or liability in which little or no market activity is available for the asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 14 – FAIR VALUE MEASUREMENTS – CONTINUED

For the years ended 2018 and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

#### *Mutual Funds*

The fair value of mutual funds is based on quoted market prices which represent the net asset value of shares held by the Museum at year-end.

#### *Equities*

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

#### *Bonds*

Government, corporate, and international bonds are valued at fair value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

#### *Private Equity Funds*

The fair value of the private equity funds is estimated using the reported net asset value of the Museum's ownership interest.

#### *Beneficial Interest in Perpetual Trusts*

The fair value of the beneficial interest in perpetual trusts is valued using an income approach and is based on the fair value of the underlying assets in the trust, which approximates the future estimated cash flows from the trusts.

#### *Beneficial Interest in Charitable Lead Annuity Trust*

The fair value of the beneficial interest in the charitable lead annuity trust is valued using an income approach and is based on the present value of future cash flows discounted at 5%.

The Museum reviews and evaluates the valuations provided by investment managers and believes that these valuations are a reasonable estimate of fair value. At each reporting period, if applicable, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 14 – FAIR VALUE MEASUREMENTS – CONTINUED

Assets measured at fair value on a recurring basis are categorized, as follows:

September 30, 2018	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 372,313			\$ 372,313
Mutual funds – fixed income	93,460			93,460
Mutual funds – equities	7,440,735			7,440,735
Equities	2,234,722			2,234,722
U. S. Government bonds		\$ 1,678,922		1,678,922
Corporate bonds		714,161		714,161
International bonds		78,076		78,076
Private investment funds		196,348		196,348
Beneficial interest in split interest agreements:				
Perpetual trusts			\$ 7,022,217	7,022,217
Charitable lead annuity trust		297,391		297,391
Total assets in fair value hierarchy	<u>\$10,141,230</u>	<u>\$ 2,964,898</u>	<u>\$ 7,022,217</u>	<u>20,128,345</u>
Investments measured at net asset value				<u>219,797</u>
Investments at fair value				<u>\$20,348,142</u>

September 30, 2017	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 653,954			\$ 653,954
Mutual funds – fixed income	60,357			60,357
Mutual funds – equities	6,851,653			6,851,653
Equities	1,656,550			1,656,550
U. S. Government bonds		\$ 1,364,833		1,364,833
Corporate bonds		842,832		842,832
International bonds		135,482		135,482
Private investment funds		167,933		167,933
Beneficial interest in split interest agreements:				
Perpetual trusts			\$ 6,833,730	6,833,730
Charitable lead annuity trust		348,821		348,821
Total assets in fair value hierarchy	<u>\$ 9,222,514</u>	<u>\$ 2,859,901</u>	<u>\$ 6,833,730</u>	<u>18,916,145</u>
Investments measured at net asset value				<u>274,466</u>
Investments at fair value				<u>\$ 19,190,611</u>



## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

### NOTE 14 – FAIR VALUE MEASUREMENTS – CONTINUED

The summary of changes in fair value associated with the Museum's Level 3 assets for the years ended 2018 and 2017 is, as follows:

	<b>Beneficial Interest in Perpetual Trusts</b>
September 30, 2016	\$ 6,436,055
Change in value of split interest agreement	<u>397,675</u>
September 30, 2017	6,833,730
Change in value of split interest agreement	<u>188,487</u>
<b>September 30, 2018</b>	<b><u><u>\$ 7,022,217</u></u></b>

Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in value in the near term would materially affect the amounts reported in the consolidated statements of financial position and activities.

### NOTE 15 – ASSET RETIREMENT OBLIGATION

Certain Museum buildings contain asbestos that upon major renovation or demolition would be required to be properly disposed of. The Museum has no expectations of plans for renovations or demolition that would trigger this obligation; therefore, its fair value cannot be reasonably estimated and no liability has been recognized as of September 30, 2018.

### NOTE 16 – CONTINGENCY

The NMTC financing received by the Museum requires the Museum to comply with applicable sections of Section 45D of the Internal Revenue Code and applicable sections of 36 Me. Rev. Stat. Ann. Subsection 5219-HH. Failure to maintain compliance with those statutes may result in the recapture of tax credits claimed by U.S. Bancorp Community Development Corporation. The Museum has entered into indemnification agreements pursuant to which the Museum is obligated to indemnify U.S. Bancorp Community Development Corporation for any tax credits recaptured due to the acts or omissions of the Museum.

### NOTE 17 – EVALUATION OF SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through March 5, 2019, which is the date of the opinion on these consolidated financial statements, which represents the date on which the consolidated financial statements were available to be issued.

**Consolidating Schedule of Financial Position**

September 30, 2018

<b>ASSETS</b>	<b>Museum</b>	<b>Real Estate</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash & cash equivalents	\$ 380,265	\$ 1,888		\$ 382,153
Cash - restricted	105,761			105,761
Accounts receivable	11,845			11,845
Pledges receivable, current	571,068			571,068
Deferred rent receivable		969,041	\$ (969,041)	
Inventory	213,164			213,164
Prepaid expenses	59,730			59,730
<b>Total Current Assets</b>	<b>1,341,833</b>	<b>970,929</b>	<b>(969,041)</b>	<b>1,343,721</b>
<b>Assets Whose Use is Limited</b>				
Endowment investments	12,854,145			12,854,145
Pooled income fund	151,633			151,633
Gift annuity fund	22,756			22,756
Perpetual trust held by others	7,022,217			7,022,217
Charitable lead interest trust held by others	297,391			297,391
<b>Total Assets Whose Use is Limited</b>	<b>20,348,142</b>	<b>-</b>	<b>-</b>	<b>20,348,142</b>
<b>Other Assets</b>				
Cash - restricted		214,852		214,852
Pledges receivable	2,277,850			2,277,850
Note receivable	7,428,935			7,428,935
Other asset	55,729			55,729
<b>Total Other Assets</b>	<b>9,762,514</b>	<b>214,852</b>	<b>-</b>	<b>9,977,366</b>
<b>Property and Equipment</b>				
	356,969	9,748,701		10,105,670
<b>Total Assets</b>	<b>\$ 31,809,458</b>	<b>\$ 10,934,482</b>	<b>\$ (969,041)</b>	<b>\$ 41,774,899</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 202,868	\$ 12,905		\$ 215,773
Accrued expenses	1,056,854		\$ (969,041)	87,813
Deferred revenue and other liabilities	8,137			8,137
Current portion of long term debt		49,697		49,697
Line of credit	360,025			360,025
<b>Total Current Liabilities</b>	<b>1,627,884</b>	<b>62,602</b>	<b>(969,041)</b>	<b>721,445</b>
<b>Long Term Debt - Net of Current Portion</b>				
		12,667,315		12,667,315
<b>Total Liabilities</b>	<b>1,627,884</b>	<b>12,729,917</b>	<b>(969,041)</b>	<b>13,388,760</b>
<b>Net Assets</b>				
Unrestricted:				
Designated by the Board of Trustees	990,767			990,767
Undesignated	6,254,585	(1,795,435)	105,653	4,564,803
	7,245,352	(1,795,435)	105,653	5,555,570
Temporarily restricted	5,053,057		(105,653)	4,947,404
Permanently restricted	17,883,165			17,883,165
<b>Total Net Assets</b>	<b>30,181,574</b>	<b>(1,795,435)</b>	<b>-</b>	<b>28,386,139</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 31,809,458</b>	<b>\$ 10,934,482</b>	<b>\$ (969,041)</b>	<b>\$ 41,774,899</b>

## Consolidating Schedule of Activities

Year Ended September 30, 2018

	Museum	Real Estate	Elimination	Total
<b>Operating Revenue and Support</b>				
Admissions	\$ 580,457			\$ 580,457
Contributions	5,670,149			5,670,149
Memberships	209,974			209,974
Endowment utilized in operations	509,100			509,100
Income from perpetual trust	338,676			338,676
Building rent	3,250	\$ 569,178	\$ (483,585)	88,843
Gift shop sales	517,644			517,644
Other sources	173,358	385	(37,000)	136,743
Net assets released from restrictions				
<b>Total Operating Revenue and Support</b>	<b>8,002,608</b>	<b>569,563</b>	<b>(520,585)</b>	<b>8,051,586</b>
<b>Operating Expenses:</b>				
Program services:				
Curatorial	2,032,784		(357,951)	1,674,833
Education	560,245		(48,861)	511,384
Museum store	509,555		(9,348)	500,207
Subtotal	3,102,584		(416,160)	2,686,424
Management and administrative	573,674	286,336	(93,166)	766,844
Development	853,529		(11,259)	842,270
Depreciation expense	44,088	426,073		470,161
Total operating expenses	4,573,875	712,409	(520,585)	4,765,699
<b>Change in Net Assets From Operations</b>	<b>3,428,733</b>	<b>(142,846)</b>		<b>3,285,887</b>
<b>Non-Operating Revenue (Expense)</b>				
Contributions	514,870			514,870
Accessions	(26,000)			(26,000)
Deaccessions				
Investment income	1,015,961			1,015,961
Change in value of split interest agreements	182,296			182,296
Net assets released from restrictions				
Endowment utilized in operations	(509,108)			(509,108)
<b>Net Change in Net Assets from Non-Operating Revenue (Expense)</b>	<b>1,178,019</b>			<b>1,178,019</b>
<b>Change in Net Assets</b>	<b>4,606,752</b>	<b>(142,846)</b>		<b>4,463,906</b>
<b>Net Assets - Beginning of Year</b>	<b>25,574,822</b>	<b>(1,652,589)</b>		<b>23,922,233</b>
<b>Net Assets - End of Year</b>	<b>\$ 30,181,574</b>	<b>\$ (1,795,435)</b>	<b>\$ -</b>	<b>\$ 28,386,139</b>

See independent auditors' report.