Cincinnati Museum Association

Financial Statements

And Additional Information

August 31, 2017 and 2016

(with Independent Auditors' Report)

CLARK SCHAEFER HACKETT

CPAS & ADVISORS

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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, 2017 and 2016, 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.

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, 2017 and 2016, 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 12, 2017

Cincinnati Museum Association
Statements of Financial Position
August 31, 2017 and 2016

		2017	2016
Assets			
Cash and cash equivalents	$	5,670,245	7,083,052
Accounts receivable		32,861	119,893
Pledges receivable, net		4,296,555	4,428,552
Interest and dividend receivable		64,553	62,123
Prepaid expenses		229,254	221,451
Inventories		355,715	462,941
Investments		146,574,207	119,896,081
Cash surrender value of life insurance		201,486	211,616
Beneficial interest of perpetual trusts		15,401,147	14,571,081
Buildings and equipment, net		20,580,173	19,907,772
Total assets	$	193,406,196	166,964,562
Liabilities and Net Assets			
Liabilities:			
Line of credit	$	153,298	419,846
Accounts payable		248,972	226,992
Accrued liabilities		867,990	688,686
Charitable remainder trusts		556,684	640,747
		1,826,944	1,976,271
Net Assets:			
Unrestricted		55,780,490	53,746,086
Temporarily restricted		58,966,508	52,996,587
Permanently restricted		76,832,254	58,245,618
		191,579,252	164,988,291
Total liabilities and net assets	$	193,406,196	166,964,562

See accompanying notes to the financial statements.

Cincinnati Museum Association
Statement of Activities
Year Ended August 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions, revenues, and gains:				
Operating revenue:				
Grants, contributions and gifts	$ 3,238,473	4,096,907	17,856,846	25,192,226
Trust income	783,868	118,400	-	902,268
Interest and dividends, net of fees of $182,664	727,557	1,973,770	-	2,701,327
Investment allocation income	2,216,000	(2,216,000)	-	-
Earned income	2,619,281	-	-	2,619,281
Exhibition income	25,518	-	-	25,518
Deaccession income	-	6,238	-	6,238
Loss on disposal of equipment	(4,212)	-	-	(4,212)
Other income	28,295	-	-	28,295
Bad debt loss	-	(264,038)	(100,276)	(364,314)
Net assets released from restrictions	5,346,852	(5,346,852)	-	-
Total contributions, revenues, gains	14,981,632	(1,631,575)	17,756,570	31,106,627
Expenses:				
Program services	11,198,264	-	-	11,198,264
Management and general	2,405,947	-	-	2,405,947
Fundraising	1,184,801	-	-	1,184,801
Purchases of art	240,867	-	-	240,867
Total expenses	15,029,879	-	-	15,029,879
Operating income (loss)	(48,247)	(1,631,575)	17,756,570	16,076,748
Non-operating revenue:				
Realized and unrealized gain on investments	2,082,651	7,601,496	-	9,684,147
Change in beneficial interest in perpetual trusts	-	-	830,066	830,066
Total non-operating revenue	2,082,651	7,601,496	830,066	10,514,213
Change in net assets	2,034,404	5,969,921	18,586,636	26,590,961
Net assets, beginning of year	53,746,086	52,996,587	58,245,618	164,988,291
Net assets, end of year	$ 55,780,490	58,966,508	76,832,254	191,579,252

See accompanying notes to the financial statements.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions, revenues, and gains:				
Operating revenue:				
Grants, contributions and gifts	$ 4,761,237	5,375,871	305,523	10,442,631
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
Bad debt loss	-	-	(139,248)	(139,248)
Net assets released from restrictions	5,407,304	(5,407,304)	-	-
Total contributions, revenues, gains	16,234,777	(146,080)	166,275	16,254,972
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	1,514,967	-	-	1,514,967
Total expenses	15,369,915	-	-	15,369,915
Operating income	864,862	(146,080)	166,275	885,057
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	-	-	141,357	141,357
Total non-operating revenue	2,823,645	6,852,513	139,458	9,815,616
Change in net assets	3,688,507	6,706,433	305,733	10,700,673
Net assets, beginning of year	50,057,579	46,290,154	57,939,885	154,287,618
Net assets, end of year	$ 53,746,086	52,996,587	58,245,618	164,988,291

See accompanying notes to the financial statements.

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	26,590,961	10,700,673
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:			
Depreciation		1,803,577	1,849,797
Bad debt loss		364,314	139,248
Realized and unrealized gain on investments		(9,684,147)	(9,674,259)
Change in beneficial interest in perpetual trusts		(830,066)	(141,357)
Contributions restricted for endowment		(17,856,846)	(166,275)
Donated stock		(17,766,007)	(171,891)
Loss on disposal of equipment		4,212	26,324
Effects of change in operating assets and liabilities:			
Accounts receivable		87,032	(65,412)
Pledges receivable		(232,317)	11,725,597
Interest and dividends receivable		(2,430)	11,187
Prepaid expenses		(7,803)	5,422
Inventories		107,226	(19,989)
Accounts payable		(222,659)	(358,671)
Accrued liabilities		179,304	38,646
Charitable remainder trusts		(84,063)	(83,053)
Net cash and cash equivalents provided by operating activities		(17,549,712)	13,815,987
Cash flows from investing activities:			
Proceeds from sale of investments		30,528,794	41,694,465
Purchase of investments		(29,756,766)	(52,685,443)
Capital expenditures		(2,235,551)	(1,027,316)
Change in cash value of life insurance		10,130	7,533
Net cash and cash equivalents used by investing activities		(1,453,393)	(12,010,761)
Cash flows from financing activities:			
Net change on line of credit		(266,548)	(85,000)
Contributions restricted for endowment		17,856,846	166,275
Net cash and cash equivalents provided by financing activities		17,590,298	81,275
Net change in cash and cash equivalents		(1,412,807)	1,886,501
Cash and cash equivalents, beginning of year		7,083,052	5,196,551
Cash and cash equivalents, end of year	$	5,670,245	7,083,052
Supplemental disclosures:			
Property and equipment included in accounts payable	$	244,639	23,063
Income tax paid	$	40,720	44,015
Interest paid	$	7,137	8,851

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, 2017 and 2016.

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. A bad debt loss is recorded if the Association determines that a pledge receivable with an existing donor restriction will not likely be received from the donor.

Inventories
Inventories are 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 2017 and 2016 were $357,321 and $298,993, 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 qualifies 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)(1).

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 its 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 a holding in a corporate stock, which represent 28% of the fair value of all investments at August 31, 2017. For the fiscal year ended August 31, 2017, the Association received 250,000 shares of this corporate stock, which further increased their concentration. The 250,000 shares (with an approximate value of $19,210,000 at August 31, 2017) are restricted for long-term purpose as endowment investments, with the corpus permanently restricted and the earnings usage to be determined by a sub-committee. The Association had holdings in one mutual fund and a corporate stock, which represent 29% of the fair value of all investments at August 31, 2016.

The Association has pledges receivable from ArtsWave and two individuals which represents 49% of all pledges receivable at August 31, 2017. The Association had pledges receivable from ArtsWave and one individual which represents 47% of all pledges receivable at August 31, 2016.

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 12, 2017, the date on which the financial statements were available to be issued.

Reclassifications

Certain items from 2016 were reclassified to conform to current year presentation.

2. PLEDGES RECEIVABLE:

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

	2017	2016
Amounts due in:		
Less than one year	$ 3,324,721	2,943,818
One to five years	777,645	1,307,552
Beyond five years	300,000	300,000
Total	4,402,366	4,551,370
Less net present value 1.9% - 3%	(95,995)	(107,820)
Less allowance for doubtful pledges	(9,816)	(14,998)
Pledges receivable, net	$ 4,296,555	4,428,552

3. BENEFICIAL INTEREST IN PERPETUAL TRUSTS:

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

Trust	Association's Percentage of Trust	2017	2016
Elma Lapp Foundation Trust	11%	$ 6,967,413	6,448,229
Dorothy Kersten Trust	11%	2,804,987	2,702,236
Lawrence Wachs Trust	100%	2,473,695	2,418,214
ArtsWave Endowment	1.3%	1,395,655	1,294,806
Judson Martin Wilson Foundation Irrevocable Charitable Trust	60%	817,804	782,910
Thomas Busse Charitable Trust	9%	374,385	361,510
Clark Davis Trust	50%	250,698	251,735
Richard Schaengold Charitable Annuity Trust	10%	242,795	240,681
Rose Drucker Trust	6%	73,715	70,760
		$ 15,401,147	14,571,081

4. BUILDINGS AND EQUIPMENT:

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

	2017	2016
Buildings and improvements	$ 53,295,375	53,068,890
Office furniture and equipment	3,785,364	3,611,209
Construction-in-progress	2,333,516	402,871
	59,414,255	57,082,970
Accumulated depreciation	38,834,082	37,175,198
	$ 20,580,173	19,907,772

5. COLLECTIONS:

The Association'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, 18th 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, 2017 and 2016, sales of art totaled $6,238 and $14,995, respectively. Purchases of art totaled $240,867 and $1,514,967 for the years ended August 31, 2017 and 2016, respectively. During the years ended August 31, 2017 and 2016, there was no significant damage or items destroyed in the Association'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, 2017 and 2016 which are included in investments 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, 2017 and 2016. 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, 2017 and 2016 was $1,283,844 and $1,240,632, 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, 2017 and 2016. 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, 2017 and 2016 was $140,799 and $132,419, 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 145 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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Donor-restricted	$ (221,580)	51,167,700	61,194,412	112,140,532
Board-designated	29,963,654	-	-	29,963,654
	$ 29,742,074	51,167,700	61,194,412	142,104,186

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment assets, beginning of year	$ 28,410,304	45,358,931	43,308,107	117,077,342
Contributions	23,824	-	17,863,806	17,887,630
Transfers in	-	-	22,499	22,499
Investment income	714,668	1,842,363	-	2,557,031
Realized and unrealized gains	1,892,031	7,564,582	-	9,456,613
Amounts appropriated for expenditure	(1,363,675)	(3,533,254)	-	(4,896,929)
Change in endowment funds with restrictions exceeding their balance reclassified from unrestricted net assets	64,922	(64,922)	-	-
Endowment net assets, end of year	$ 29,742,074	51,167,700	61,194,412	142,104,186

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
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	182,499	(182,499)	-	-
Endowment net assets, end of year	$ 28,410,304	45,358,931	43,308,107	117,077,342

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 polices, 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 private equity 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, 2017 and 2016, the amount of permanently restricted endowment funds deficit was $221,580 and $286,502, 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 (EFT) 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, hedge funds and private equity 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, 2017 and 2016 because of the relatively short maturity of these instruments.

There have been no changes in the methodologies used at August 31, 2017 and 2016.

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 Association 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, 2017 and 2016 that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	August 31, 2017	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	$ 425,004	425,004	-	-
Equities:				
Financial *	41,379,569	41,379,569	-	-
Mutual funds and ETF's:				
Fixed income	9,108,435	9,108,435	-	-
Large cap blend	23,976,892	23,976,892	-	-
Large cap growth	5,853,235	5,853,235	-	-
Large cap value	9,638,682	9,638,682	-	-
Mid cap blend	2,052,487	2,052,487	-	-
Mid cap growth	12,133	12,133	-	-
Mid cap value	7,602,828	7,602,828	-	-
Small cap blend	17,958	17,958	-	-
Small cap growth	11,625	11,625	-	-
Small cap value	9,757,158	9,757,158	-	-
International	48,503	48,503	-	-
Alternative investments:				
Large cap growth	74,248	74,248	-	-
Real estate funds	95,435	95,435	-	-
Corporate bonds	6,617,540	-	6,617,540	-
U.S. Treasury bonds	3,626,217	3,626,217	-	-
Agency bonds	2,437,621	-	2,437,621	-
Municipal bonds	35,956	-	35,956	-
Asset backed	607,100	-	607,100	-
Mortgages	37,204	-	37,204	-
Other/foreign bonds	43,759	-	43,759	-
Private equity	289,096	-	-	289,096
Hedge funds	22,825,522	-	-	22,825,522
	$ 146,574,207	113,680,409	9,779,180	23,114,618
Beneficial interest in perpetual trusts	$ 15,401,147	-	-	15,401,147

* See description of long-term purpose of shares in the concentrations of credit risk section of Note 1.

	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:				
Fixed income	4,869,052	4,869,052	-	-
Inflation protected bonds	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	-
Private equity	248,666	-	-	248,666
Hedge funds	21,650,633	-	-	21,650,633
	$ 119,896,081	88,415,428	9,581,354	21,899,299
Beneficial interest in perpetual trusts	$ 14,571,081	-	-	14,571,081

The Association is committed to provide additional capital related to the private equity investments in the amount of $1,840,000 as of August 31, 2017. Subsequent to August 31, 2017, the Association committed an additional $1,250,000 of capital to a private equity investment.

The following is a reconciliation of the Association's assets valued at Level 3 inputs as of August 31, 2017:

	Beneficial Interest in Trusts	Hedge Funds	Private Equity
Balance as of September 1, 2016	$ 14,571,081	21,650,633	248,666
Purchases	-	-	200,000
Withdrawals and sales	-	-	(95,000)
Net unrealized gains and losses	-	1,043,421	(64,570)
Net realized gains	-	131,468	-
Change in beneficial interest in perpetual trust	830,066	-	-
Balance as of August 31, 2017	$ 15,401,147	22,825,522	289,096
Change in unrealized gains or losses included in the change in net assets, for assets held at the end of the reporting period	$ 830,066	1,043,421	(64,570)

	Beneficial Interest in Trusts	Hedge Funds	Private Equity
Balance as of September 1, 2015	$ 14,429,724	20,558,073	93,666
Purchases	-	4,750,000	155,000
Withdrawals and sales	-	(3,346,666)	-
Net unrealized losses	-	(135,859)	-
Net realized losses	-	(174,915)	-
Change in beneficial interest in perpetual trust	141,357	-	-
Balance as of August 31, 2016	$ 14,571,081	21,650,633	248,666
Change in unrealized gains or losses included in the change in net assets, for assets held at the end of the reporting period	$ 141,357	(135,859)	-

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 2017 and 2016 were $70,715 and $69,073, respectively. No discretionary profit sharing contribution was made during 2017 or 2016.

10. TEMPORARILY RESTRICTED NET ASSETS:

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

	2017	2016
Time restricted investments	$ 51,870,610	45,960,269
Purpose restricted:		
Capital campaign	145,544	826,586
Art purchases	2,726,015	1,570,970
Other	4,224,339	4,638,762
	$ 58,966,508	52,996,587

11. PERMANENTLY RESTRICTED NET ASSETS:

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

	2017	2016
Purpose restrictions	$ 39,320,521	39,022,668
General operations	22,110,586	4,651,869
Beneficial interest in perpetual trusts	15,401,147	14,571,081
	$ 76,832,254	58,245,618

12. LINE OF CREDIT:

The Association had a line of credit for $500,000, which bore interest at LIBOR plus 1.30% (2.53% at August 31, 2017) and expired September 1, 2017. The line of credit was extended until September 1, 2018 and was reduced to $175,000. The Association had $153,298 and $419,846 outstanding on this line of credit at August 31, 2017 and 2016, respectively. The line of credit agreement contains certain covenants. The Association was in compliance with these covenants at August 31, 2017 and 2016. Based on the borrowing rates currently available to the Association, carrying value approximates fair value for the line of credit.

	Program Services	Management and General	Fundraising	Total
Salaries	$ 4,162,498	939,710	590,437	5,692,645
Payroll taxes	303,019	65,192	40,990	409,201
Pension expense	52,510	12,339	5,866	70,715
Employee benefits	562,934	165,519	77,041	805,494
Event costs	61,530	22,860	252,385	336,775
Hospitality	32,494	11,010	8,628	52,132
Café/catering	134,135	162,356	-	296,491
Dues and memberships	25,477	13,508	1,170	40,155
Honorarium	48,417	-	-	48,417
Shipping, postage and exhibition fees	579,001	3,314	17,546	599,861
Installation and framing	311,662	1,235	-	312,897
Photography	7,978	-	-	7,978
Supplies	174,273	41,896	14,086	230,255
Promotion and outreach	345,925	8,458	2,938	357,321
Print/typesetting	205,826	3,387	48,012	257,225
Professional development	54,160	25,885	2,539	82,584
Books and periodicals	24,562	663	4,028	29,253
Professional services	432,814	205,234	31,416	669,464
Repairs, maintenance, and other equipment expense	377,063	69,449	3,519	450,031
Service contracts	406,620	66,312	39,122	512,054
Volunteer events and other expense	43,274	-	-	43,274
Project expense	165,319	8,820	-	174,139
Gift shop merchandise	443,737	-	-	443,737
Miscellaneous	20,479	16,436	635	37,550
Utilities	497,373	117,401	5,083	619,857
Telephone	34,055	16,094	7,268	57,417
Insurance	198,801	27,992	1,160	227,953
Banking and custodial fees	45,137	52,143	16,143	113,423
Interest	-	7,137	-	7,137
Depreciation	1,447,191	341,597	14,789	1,803,577
	$ 11,198,264	2,405,947	1,184,801	14,789,012

See accompanying notes to the financial statements.

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		1,484,277	350,352	15,168	1,849,797
	$	10,365,238	2,508,611	981,099	13,854,948

See accompanying notes to the financial statements.