

## **Cincinnati Museum Association**

Financial Statements

And Supplementary Information

August 31, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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 23-24 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 13, 2018

Cincinnati Museum Association  
Statements of Financial Position  
August 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 8,419,239	5,670,245
Accounts receivable	114,466	32,861
Pledges receivable, net	3,804,144	4,296,555
Interest and dividend receivable	68,098	64,553
Prepaid expenses	498,137	229,254
Inventories	295,553	355,715
Investments	149,945,260	146,574,207
Cash surrender value of life insurance	187,388	201,486
Beneficial interest of perpetual trusts	16,161,659	15,401,147
Buildings and equipment, net	<u>20,775,313</u>	<u>20,580,173</u>
<b>Total assets</b>	<b>\$ <u>200,269,257</u></b>	<b><u>193,406,196</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Line of credit	\$ -	153,298
Accounts payable	376,664	248,972
Accrued liabilities	767,984	867,990
Charitable remainder trusts	<u>469,506</u>	<u>556,684</u>
	<u>1,614,154</u>	<u>1,826,944</u>
<b>Net Assets:</b>		
Unrestricted	57,943,223	55,780,490
Temporarily restricted	62,916,739	58,966,508
Permanently restricted	<u>77,795,141</u>	<u>76,832,254</u>
	<u>198,655,103</u>	<u>191,579,252</u>
<b>Total liabilities and net assets</b>	<b>\$ <u>200,269,257</u></b>	<b><u>193,406,196</u></b>

See accompanying notes to the financial statements.

Cincinnati Museum Association  
Statement of Activities  
Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions, revenues, and gains:				
Operating revenue:				
Grants, contributions and gifts	\$ 3,349,927	5,967,754	202,375	9,520,056
Trust income	802,803	-	-	802,803
Interest and dividends, net of fees of \$157,109	1,641,746	2,465,077	-	4,106,823
Investment allocation income	2,483,542	(2,483,542)	-	-
Earned income	3,451,050	-	-	3,451,050
Exhibition income	34,270	-	-	34,270
Deaccession income	-	21,073	-	21,073
Loss on disposal of equipment	(2,214)	-	-	(2,214)
Other income	67,478	-	-	67,478
Net assets released from restrictions	<u>5,435,452</u>	<u>(5,435,452)</u>	<u>-</u>	<u>-</u>
Total contributions, revenues, gains	<u>17,264,054</u>	<u>534,910</u>	<u>202,375</u>	<u>18,001,339</u>
Expenses:				
Program services	11,550,405	-	-	11,550,405
Management and general	2,538,305	-	-	2,538,305
Fundraising	1,156,416	-	-	1,156,416
Purchases of art	<u>1,017,194</u>	<u>-</u>	<u>-</u>	<u>1,017,194</u>
Total expenses	<u>16,262,320</u>	<u>-</u>	<u>-</u>	<u>16,262,320</u>
Operating income	<u>1,001,734</u>	<u>534,910</u>	<u>202,375</u>	<u>1,739,019</u>
Non-operating revenue:				
Realized and unrealized gain on investments	1,160,999	3,415,321	-	4,576,320
Change in beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>760,512</u>	<u>760,512</u>
Total non-operating revenue	<u>1,160,999</u>	<u>3,415,321</u>	<u>760,512</u>	<u>5,336,832</u>
Change in net assets	2,162,733	3,950,231	962,887	7,075,851
Net assets, beginning of year	<u>55,780,490</u>	<u>58,966,508</u>	<u>76,832,254</u>	<u>191,579,252</u>
Net assets, end of year	<u>\$ 57,943,223</u>	<u>62,916,739</u>	<u>77,795,141</u>	<u>198,655,103</u>

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	<u>5,346,852</u>	<u>(5,346,852)</u>	<u>-</u>	<u>-</u>
Total contributions, revenues, gains	<u>14,981,632</u>	<u>(1,631,575)</u>	<u>17,756,570</u>	<u>31,106,627</u>
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	<u>240,867</u>	<u>-</u>	<u>-</u>	<u>240,867</u>
Total expenses	<u>15,029,879</u>	<u>-</u>	<u>-</u>	<u>15,029,879</u>
Operating income (loss)	<u>(48,247)</u>	<u>(1,631,575)</u>	<u>17,756,570</u>	<u>16,076,748</u>
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	<u>-</u>	<u>-</u>	<u>830,066</u>	<u>830,066</u>
Total non-operating revenue	<u>2,082,651</u>	<u>7,601,496</u>	<u>830,066</u>	<u>10,514,213</u>
Change in net assets	2,034,404	5,969,921	18,586,636	26,590,961
Net assets, beginning of year	<u>53,746,086</u>	<u>52,996,587</u>	<u>58,245,618</u>	<u>164,988,291</u>
Net assets, end of year	<u>\$ 55,780,490</u>	<u>58,966,508</u>	<u>76,832,254</u>	<u>191,579,252</u>

See accompanying notes to the financial statements.

Cincinnati Museum Association  
 Statements of Cash Flows  
 Years Ended August 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 7,075,851	26,590,961
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation	1,496,056	1,803,577
Bad debt loss	-	364,314
Realized and unrealized gain on investments	(4,576,320)	(9,684,147)
Change in beneficial interest in perpetual trusts	(760,512)	(830,066)
Contributions restricted for endowment	(202,375)	(17,856,846)
Donated stock	(849,759)	(17,766,007)
Loss on disposal of equipment	2,214	4,212
Effects of change in operating assets and liabilities:		
Accounts receivable	(81,605)	87,032
Pledges receivable	492,411	(232,317)
Interest and dividends receivable	(3,545)	(2,430)
Prepaid expenses	(268,883)	(7,803)
Inventories	60,162	107,226
Accounts payable	349,376	(222,659)
Accrued liabilities	(100,006)	179,304
Charitable remainder trusts	(87,178)	(84,063)
Net cash and cash equivalents provided (used) by operating activities	<u>2,545,887</u>	<u>(17,549,712)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	20,531,466	30,528,794
Purchase of investments	(18,476,440)	(29,756,766)
Capital expenditures	(1,915,094)	(2,235,551)
Change in cash value of life insurance	14,098	10,130
Net cash and cash equivalents provided (used) by investing activities	<u>154,030</u>	<u>(1,453,393)</u>
Cash flows from financing activities:		
Net change on line of credit	(153,298)	(266,548)
Contributions restricted for endowment	202,375	17,856,846
Net cash and cash equivalents provided by financing activities	<u>49,077</u>	<u>17,590,298</u>
Net change in cash and cash equivalents	2,748,994	(1,412,807)
Cash and cash equivalents, beginning of year	<u>5,670,245</u>	<u>7,083,052</u>
Cash and cash equivalents, end of year	\$ <u>8,419,239</u>	\$ <u>5,670,245</u>
Supplemental disclosures:		
Property and equipment included in accounts payable	\$ <u>22,955</u>	<u>244,639</u>
Income tax paid	\$ <u>37,977</u>	<u>40,720</u>
Interest paid	\$ <u>2,187</u>	<u>7,137</u>

See accompanying notes to the financial statements.



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

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

### **Nature of operations**

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

### **Use of estimates**

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

### **Financial statement presentation**

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

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

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

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

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

**Donated services**

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

**Cash and cash equivalents**

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

**Accounts receivable**

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of the account has not been paid in full within the contractual terms of the account. The Association reviews its outstanding accounts receivable and considers an allowance for doubtful accounts based on historical collection information and existing economic conditions. Based on these criteria, the Association has estimated no allowance for doubtful accounts is necessary at August 31, 2018 and 2017.

**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 net realizable value 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 2018 and 2017 were \$324,261 and \$357,321, 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.

For the fiscal year ended August 31, 2017, the Association received 250,000 shares of a corporate stock. The 250,000 shares (with an approximate value of \$19,168,000 and \$19,210,00 at August 31, 2018 and 2017, respectively) 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. At August 31, 2017, these holdings represented 28% of the fair value of all investments. At August 31, 2018, these holdings and one mutual fund represented 38% of the fair value of all investments.

The Association has pledges receivable from ArtsWave which represents 39% of all pledges receivable at August 31, 2018. The Association had pledges receivable from ArtsWave and two individuals which represent 49% of all pledges receivable at August 31, 2017.

**Measure of operations**

The Association includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities and net assets released from donor restrictions to support operating expenditures to support current operating activities. The measure of operations includes support for operating activities from restricted net assets and unrestricted net assets designated for long-term investment (the endowment) according to the Association's spending policy described in Note 7. The measure of operations excludes realized and unrealized gains on investments and changes in beneficial interest in perpetual trusts.

**Accounting changes**

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent). ASU 2015-07 simplifies disclosures and reporting on investment valued at net asset value as a practical expedient. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016 with earlier adoption permitted. The Association has implemented this guidance and applied retrospectively to all periods presented. This change has no impact on net assets.

**Reclassifications**

Certain items from 2017 were reclassified to conform to current year presentation.

**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 13, 2018, the date on which the financial statements were available to be issued.

**2. PLEDGES RECEIVABLE:**

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

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 3,015,176	3,324,721
One to five years	592,096	777,645
Beyond five years	<u>300,000</u>	<u>300,000</u>
Total	3,907,272	4,402,366
Less net present value 1.9% - 3%	(95,159)	(95,995)
Less allowance for doubtful pledges	<u>(7,969)</u>	<u>(9,816)</u>
Pledges receivable, net	\$ <u>3,804,144</u>	<u>4,296,555</u>

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

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

<u>Trust</u>	<u>Association's Percentage of Trust</u>	<u>2018</u>	<u>2017</u>
Elma Lapp Foundation Trust	11%	\$ 7,265,202	6,967,413
Dorothy Kersten Trust	11%	2,990,019	2,804,987
Lawrence Wachs Trust	100%	2,646,269	2,473,695
ArtsWave Endowment	1.26%	1,443,922	1,395,655
Judson Martin Wilson Foundation			
Irrevocable Charitable Trust	60%	852,790	817,804
Thomas Busse Charitable Trust	9%	389,713	374,385
Clark Davis Trust	50%	251,832	250,698
Richard Schaengold Charitable			
Annuity Trust	10%	246,334	242,795
Rose Drucker Trust	6%	<u>75,578</u>	<u>73,715</u>
		\$ <u>16,161,659</u>	<u>15,401,147</u>

**4. BUILDINGS AND EQUIPMENT:**

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

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 56,053,116	53,295,375
Office furniture and equipment	4,375,094	3,785,364
Construction-in-progress	<u>434,178</u>	<u>2,333,516</u>
	60,862,388	59,414,255
Accumulated depreciation	<u>40,087,075</u>	<u>38,834,082</u>
	<u>\$ 20,775,313</u>	<u>20,580,173</u>

**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, 18<sup>th</sup> and 19th century portrait miniatures, decorative arts, costumes and textiles, musical instruments, contemporary art, African and Native American art, and works on paper, including prints, drawings, watercolors, and photographs. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. During the years ended August 31, 2018 and 2017, sales of art totaled \$21,073 and \$6,238, respectively. Purchases of art totaled \$1,017,194 and \$240,867 for the years ended August 31, 2018 and 2017, respectively. During the years ended August 31, 2018 and 2017, 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, 2018 and 2017 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, 2018 and 2017. 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, 2018 and 2017 was \$1,286,678 and \$1,283,844, 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, 2018 and 2017. 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, 2018 and 2017 was \$143,486 and \$140,799, 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 149 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, 2018:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Endowment <u>Assets</u>
Donor-restricted	\$ (211,761)	53,084,803	61,403,194	114,276,236
Board-designated	<u>30,557,968</u>	-	-	<u>30,557,968</u>
	<u>\$ 30,346,207</u>	<u>53,084,803</u>	<u>61,403,194</u>	<u>144,834,204</u>

The endowment consists of investments held with a number of financial institutions and the net asset composition is as follows at August 31, 2017:

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

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total Endowment <u>Assets</u>
Endowment assets, beginning of year	\$ 29,742,074	51,167,700	61,194,412	142,104,186
Contributions	39,793	-	202,375	242,168
Transfers in	-	-	6,407	6,407
Investment income	944,330	2,453,353	-	3,397,683
Realized and unrealized gains	1,096,261	3,356,131	-	4,452,392
Amounts appropriated for expenditure	(1,486,070)	(3,882,562)	-	(5,368,632)
Change in endowment funds with restrictions exceeding their balance reclassified from unrestricted net assets	<u>9,819</u>	<u>(9,819)</u>	-	-
Endowment net assets, end of year	<u>\$ 30,346,207</u>	<u>53,084,803</u>	<u>61,403,194</u>	<u>144,834,204</u>



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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment assets, beginning of year	\$ 28,410,304	45,358,931	43,308,107	117,077,342
Contributions	23,824	-	17,856,846	17,880,670
Transfers in	-	-	29,459	29,459
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	<u>64,922</u>	<u>(64,922)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 29,742,074</u>	<u>51,167,700</u>	<u>61,194,412</u>	<u>142,104,186</u>

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

**Spending policy**

The Association has an annual spending policy of 5% of its endowment fund's rolling 12 quarter average fair value. In establishing this policy, the Association considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which may be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. During fiscal year 2018, the Association approved a new spending policy, to be phased in over five years, of 4.50% of its endowment fund's rolling 20 quarter average fair value beginning in fiscal year 2020.

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

The Association has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes cash, corporate stocks and bonds, mutual funds, U.S. and municipal government securities and 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, 2018 and 2017, the amount of permanently restricted endowment funds deficit was \$211,761 and \$221,580, 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 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.

Net asset value: The net asset value (NAV) is based on the fair value of the underlying investments held by the fund less its liabilities.

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. Alternative investments are based on the Level 1 market approach as these investments are primarily mutual and exchange traded funds. Investments in debt related instruments are valued on Level 2 inputs using prices obtained from the custodians, which used third party data service providers. Investments in beneficial interest in perpetual trusts 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. Hedge funds and private equity funds are valued at the NAV based on amounts reported by the custodians of the investments as validated through consideration of the audited financial statements of such investments. 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 NAV of the fund.

The Association has committed to providing additional capital related to the private equity and hedge fund investments in the amounts of \$2,752,500 and \$1,840,000 as of August 31, 2018 and 2017, respectively.

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, 2018 and 2017 because of the relatively short maturity of these instruments.

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, 2018 and 2017 that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	August 31, 2018	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	\$ 872,423	872,423	-	-
Equities:				
Financial *	41,288,022	41,288,022	-	-
Mutual funds and ETF's:				
Fixed Income	6,478,003	6,478,003	-	-
Large cap blend	20,451,586	20,451,586	-	-
Large cap growth	10,990,602	10,990,602	-	-
Large cap value	14,513,388	14,513,388	-	-
Mid cap blend	2,174,078	2,174,078	-	-
Mid cap growth	14,840	14,840	-	-
Small cap blend	23,481	23,481	-	-
Small cap value	12,440,368	12,440,368	-	-
International	67,247	67,247	-	-
Inflation protected	2,464,101	2,464,101	-	-
Alternative investments:				
Large cap blend	74,485	74,485	-	-
Real estate funds	83,882	83,882	-	-
Corporate bonds	7,234,837	-	7,234,837	-
U.S. Treasury bonds	3,002,562	3,002,562	-	-
Agency bonds	2,201,340	-	2,201,340	-
Municipal bonds	33,979	-	33,979	-
Asset backed	482,347	-	482,347	-
Mortgages	159,786	-	159,786	-
Other/foreign bonds	<u>41,656</u>	<u>-</u>	<u>41,656</u>	<u>-</u>
	\$ 125,093,013	114,939,068	10,153,945	-
Investments measured at NAV:				
Hedge funds	\$ 24,313,109			
Private equity funds	<u>539,138</u>			
Total investments	\$ <u>149,945,260</u>			
Beneficial interest in perpetual trusts				
	\$ <u>16,161,659</u>	<u>-</u>	<u>-</u>	<u>16,161,659</u>

Cincinnati Museum Association  
Notes to the Financial Statements  
August 31, 2018 and 2017

	August 31, <u>2017</u>	Quoted prices in active markets for identical assets or liabilities <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
Investments:				
Cash and cash equivalents	\$ 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	<u>43,759</u>	<u>-</u>	<u>43,759</u>	<u>-</u>
	\$ 123,459,589	113,680,409	9,779,180	-
Investments measured at NAV:				
Hedge funds	\$ 22,825,522			
Private equity funds	<u>289,096</u>			
Total investments	\$ <u>146,574,207</u>			
Beneficial interest in perpetual trusts	\$ <u>15,401,147</u>	<u>-</u>	<u>-</u>	<u>15,401,147</u>

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

The following is a reconciliation of the Association's beneficial interest of perpetual trusts valued at Level 3 inputs as of August 31:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 15,401,147	14,571,081
Change in beneficial interest in perpetual trusts	<u>760,512</u>	<u>830,066</u>
Balance at end of year	\$ <u>16,161,659</u>	<u>15,401,147</u>
Change in unrealized gains or losses included in the change in net assets, for assets held at the end of the reporting period	\$ <u>760,512</u>	<u>830,066</u>

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

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

Participants are fully vested in the employer discretionary contributions after three years of service. The Association's contributions and expenses related to the 401(k) plan in 2018 and 2017 were \$82,411 and \$70,715, respectively. No discretionary profit sharing contribution was made during 2018 or 2017.

**10. TEMPORARILY RESTRICTED NET ASSETS:**

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

	<u>2018</u>	<u>2017</u>
Time restricted investments	\$ 54,427,042	51,870,610
Purpose restricted:		
Capital projects	729,457	145,544
Art purchases	4,161,406	2,726,015
Other	<u>3,598,834</u>	<u>4,224,339</u>
	\$ <u>62,916,739</u>	<u>58,966,508</u>

**11. PERMANENTLY RESTRICTED NET ASSETS:**

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

	<u>2018</u>	<u>2017</u>
Purpose restrictions	\$ 39,322,896	39,320,521
General operations	22,310,586	22,110,586
Beneficial interest in perpetual trusts	<u>16,161,659</u>	<u>15,401,147</u>
	<u>\$ 77,795,141</u>	<u>76,832,254</u>

**12. LINE OF CREDIT:**

The Association had a line of credit for \$500,000, which bore interest at LIBOR plus 1.30% (3.41% at August 31, 2018) and expired September 1, 2018. The line of credit was paid off during fiscal year 2018 and not renewed. The Association had \$153,298 outstanding on this line of credit at August 31, 2017. The line of credit agreement contained certain covenants. The Association was in compliance with these covenants at August 31, 2018. Based on the borrowing rates currently available to the Association, carrying value approximates fair value for the line of credit.

**13. NEW ACCOUNTING PRONOUNCEMENTS:**

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities. The standard aims to improve not-for-profit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include: net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications will be reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions). Updated disclosure requirements will be presented regarding risk exposure and availability of cash for short term use. Expenses will be reported by both their natural and functional classification to aid in the usefulness of financial statements. This standard will be effective for the Association's year ending August 31, 2019.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the Association's year ending August 31, 2020.

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The standard will assist entities in determining whether transactions should be recorded as a contribution (nonreciprocal transaction) or as an exchange (reciprocal transaction). The standard also provides expanded guidance on determining whether or not a contribution is conditional. This standard will be effective for the Association's year ending August 31, 2020.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Association's year ending August 31, 2021.

The Association is currently in the process of evaluating the impact of adoption of these ASU's on the financial statements.

#### **14. SUBSEQUENT EVENTS:**

Subsequent to year end, the Association entered into a New Markets Tax Credit arrangement which leverages \$1,950,000 in federal tax credits. The new markets tax credits arrangement will be used for construction costs of the "Art Climb" on the Gilbert Avenue hillside. As a requirement of the tax credit arrangement, the Agency created a not-for-profit entity, Art Museum Support Corporation, to serve as the leveraged lender.

Under the new market tax credit agreement, the Association has made certain guarantees and commitments related to the delivery of the new markets tax credits. The project is expected to begin construction in fiscal year 2019.



Cincinnati Museum Association  
Schedule of Functional Expenses  
Year Ended August 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 4,609,760	970,581	642,683	6,223,024
Payroll taxes	335,564	70,339	44,302	450,205
Pension expense	60,761	12,248	9,402	82,411
Employee benefits	618,818	185,966	69,063	873,847
Event costs	79,583	25,354	130,132	235,069
Hospitality	29,982	15,944	5,102	51,028
Café/catering	144,023	213,634	-	357,657
Dues and memberships	26,697	17,009	11,315	55,021
Honorarium	47,431	-	-	47,431
Shipping, postage and exhibition fees	881,646	4,607	22,299	908,552
Installation and framing	295,395	1,141	3,341	299,877
Photography	2,077	-	-	2,077
Supplies	197,764	46,711	11,841	256,316
Promotion and outreach	303,786	10,460	10,015	324,261
Print/typesetting	154,071	5,343	64,615	224,029
Professional development	80,646	24,225	6,975	111,846
Books and periodicals	20,664	2,159	6,569	29,392
Professional services	324,970	210,441	16,728	552,139
Repairs, maintenance, and other equipment expense	346,015	60,574	2,399	408,988
Service contracts	385,288	127,243	37,214	549,745
Volunteer events and other expense	54,029	-	-	54,029
Project expense	88,351	1,209	20,000	109,560
Gift shop merchandise	374,164	-	-	374,164
Miscellaneous	69,796	20,243	508	90,547
Utilities	528,368	124,717	5,400	658,485
Telephone	30,183	14,060	6,350	50,593
Insurance	197,471	29,791	1,239	228,501
Banking and custodial fees	62,667	58,766	16,656	138,089
Interest	-	2,187	-	2,187
Depreciation	<u>1,200,435</u>	<u>283,353</u>	<u>12,268</u>	<u>1,496,056</u>
	<u>\$ 11,550,405</u>	<u>2,538,305</u>	<u>1,156,416</u>	<u>15,245,126</u>

See accompanying notes to the financial statements.

Cincinnati Museum Association  
Schedule of Functional Expenses  
Year Ended August 31, 2017

	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	<u>1,447,191</u>	<u>341,597</u>	<u>14,789</u>	<u>1,803,577</u>
	<u>\$ 11,198,264</u>	<u>2,405,947</u>	<u>1,184,801</u>	<u>14,789,012</u>

See accompanying notes to the financial statements.

