

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE**

FINANCIAL STATEMENTS

**YEAR ENDED MAY 31, 2018 AND
ELEVEN MONTHS ENDED MAY 31, 2017**

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
TABLE OF CONTENTS
YEAR ENDED MAY 31, 2018 AND ELEVEN MONTHS ENDED MAY 31, 2017**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	6
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Polk Museum of Art, Inc. dba: Polk Museum of Art at Florida Southern College
Lakeland, Florida

We have audited the accompanying financial statements of Polk Museum of Art, Inc. dba: Polk Museum of Art at Florida Southern College, Inc. (a nonprofit organization), which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the year and the eleven months then ended, respectively, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Board of Trustees
Polk Museum of Art, Inc. dba: Polk Museum of Art at Florida Southern College

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Polk Museum of Art, Inc. dba: Polk Museum of Art at Florida Southern College as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the year and the eleven months then ended, respectively, in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Lakeland, Florida
September 19, 2018

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2018 AND 2017**

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 7,675	\$ 45,325
Governmental Support Receivable	101,159	94,972
Contributions Receivable	25,450	2,000
Other Receivables	1,165	5,380
Inventory - Museum Shop	32,963	30,171
Prepaid Expenses	22,179	10,917
Total Current Assets	190,591	188,765
ENDOWMENT ASSETS		
Cash and Cash Equivalents, Endowment	185,410	291,972
Investments Restricted for Endowment, at Fair Value	3,176,548	3,109,997
Total Endowment Assets	3,361,958	3,401,969
PROPERTY AND EQUIPMENT, NET	2,469,899	2,560,712
COLLECTION ITEMS (Note 1)	-	-
Total Assets	\$ 6,022,448	\$ 6,151,446
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 59,014	\$ 108,320
Deferred Revenues	46,434	50,446
Due to Related Party	168,200	-
Total Current Liabilities	273,648	158,766
NET ASSETS		
Unrestricted Net Assets:		
Board Designated for Long-Term Investment	2,115,660	2,125,722
Other Unrestricted	2,341,707	2,568,547
Total Unrestricted Net Assets	4,457,367	4,694,269
Temporarily Restricted Net Assets	91,433	98,411
Permanently Restricted Net Assets	1,200,000	1,200,000
Total Net Assets	5,748,800	5,992,680
Total Liabilities and Net Assets	\$ 6,022,448	\$ 6,151,446

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING SUPPORT AND REVENUES				
Governmental Support	\$ 325,234	\$ -	\$ -	\$ 325,234
Special Events (Net of Costs of Direct Benefits to Donors of \$75,721)	426,130	-	-	426,130
Contributions	227,238	25,500	-	252,738
Memberships	209,849	-	-	209,849
In-Kind Revenues	36,062	-	-	36,062
Program Revenue	132,629	-	-	132,629
Gift Shop Sales	86,151	-	-	86,151
Endowment Income Used in Operations	139,852	72,529	-	212,381
Other Income and Revenues	2,372	-	-	2,372
Net Assets Released from Restrictions	<u>72,529</u>	<u>(72,529)</u>	<u>-</u>	<u>-</u>
Total Support and Revenues	1,658,046	25,500	-	1,683,546
EXPENSES				
Program Expenses:				
Exhibitions	737,674	-	-	737,674
Education	257,141	-	-	257,141
Operations and Administrative	697,401	-	-	697,401
Fundraising/Development	<u>220,683</u>	<u>-</u>	<u>-</u>	<u>220,683</u>
Total Expenses	<u>1,912,899</u>	<u>-</u>	<u>-</u>	<u>1,912,899</u>
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED AND NONOPERATING ACTIVITIES	(254,853)	25,500	-	(229,353)
CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED				
Purchases of Collections	(6,779)	-	-	(6,779)
Net Assets Released from Donor Restrictions to Fund Acquisitions of Art Collections	<u>32,478</u>	<u>(32,478)</u>	<u>-</u>	<u>-</u>
NONOPERATING ACTIVITIES				
Income on Long-Term Investments (Net of Fees of \$19,142)	(4,378)	72,529	-	68,151
Realized and Unrealized Gain on Investments	136,482	-	-	136,482
Endowment Income Used in Operations	<u>(139,852)</u>	<u>(72,529)</u>	<u>-</u>	<u>(212,381)</u>
CHANGE IN NET ASSETS	(236,902)	(6,978)	-	(243,880)
Net Assets - Beginning of Period	<u>4,694,269</u>	<u>98,411</u>	<u>1,200,000</u>	<u>5,992,680</u>
NET ASSETS - END OF PERIOD	<u>\$ 4,457,367</u>	<u>\$ 91,433</u>	<u>\$ 1,200,000</u>	<u>\$ 5,748,800</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
STATEMENT OF ACTIVITIES
ELEVEN MONTHS ENDED MAY 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Governmental Support	\$ 367,831	\$ -	\$ -	\$ 367,831
Special Events (Net of Costs of Direct Benefits to Donors of \$56,833)	412,561	-	-	412,561
Contributions	209,738	35,869	-	245,607
Memberships	177,916	-	-	177,916
In-Kind Revenues	104,035	-	-	104,035
Program Revenue	48,708	-	-	48,708
Gift Shop Sales	71,738	-	-	71,738
Endowment Income Used in Operations	302,419	105,063	-	407,482
Other Income and Revenues	5,578	-	-	5,578
Net Assets Released from Restrictions	195,447	(195,447)	-	-
Total Support and Revenues	<u>1,895,971</u>	<u>(54,515)</u>	<u>-</u>	<u>1,841,456</u>
EXPENSES				
Program Expenses:				
Exhibitions	702,138	-	-	702,138
Education	216,003	-	-	216,003
Operations and Administrative	661,038	-	-	661,038
Fundraising/Development	236,175	-	-	236,175
Total Expenses	<u>1,815,354</u>	<u>-</u>	<u>-</u>	<u>1,815,354</u>
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED				
	80,617	(54,515)	-	26,102
CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED				
Purchases of Collections	(3,770)	-	-	(3,770)
Net Assets Released from Donor Restrictions to Fund Acquisitions of Art Collections	<u>3,770</u>	<u>(3,770)</u>	<u>-</u>	<u>-</u>
NONOPERATING ACTIVITIES				
Income on Long-Term Investments (Net of Fees of \$21,624)	(59,516)	105,063	-	45,547
Realized and Unrealized Gain on Investments	256,170	-	-	256,170
Endowment Income Used in Operations	<u>(302,419)</u>	<u>(105,063)</u>	<u>-</u>	<u>(407,482)</u>
CHANGE IN NET ASSETS				
	(25,148)	(58,285)	-	(83,433)
Net Assets - Beginning of Period	<u>4,719,417</u>	<u>156,696</u>	<u>1,200,000</u>	<u>6,076,113</u>
NET ASSETS - END OF PERIOD	<u><u>\$ 4,694,269</u></u>	<u><u>\$ 98,411</u></u>	<u><u>\$ 1,200,000</u></u>	<u><u>\$ 5,992,680</u></u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2018**

	<u>Exhibitions</u>	<u>Education</u>	<u>Operations and Administration</u>	<u>Fundraising/ Development</u>	<u>Total</u>
Salaries and Benefits	\$ 351,132	\$ 99,129	\$ 362,636	\$ 51,500	\$ 864,397
Utilities	58,222	50,944	31,294	5,094	145,554
Depreciation	48,171	42,150	25,892	4,215	120,428
Professional Fees / Contract Fees	18,074	1,225	64,939	25,200	109,438
Repairs and Maintenance	50,160	43,890	26,961	4,389	125,400
Security Services	66,428	-	-	-	66,428
Advertising	-	3,736	395	53,032	57,163
Equipment Rentals	21,168	-	35,760	-	56,928
Printing / Promotional	40,145	1,197	250	13,867	55,459
Insurance	-	-	43,650	-	43,650
Museum Shop - Cost of Sales	-	-	41,546	-	41,546
In-Kind Expense	20,750	-	15,312	-	36,062
Postage and Shipping	21,998	21	2,831	8,494	33,344
Travel	22,155	-	-	1,190	23,345
Meetings / Hospitality	-	3,007	5,454	14,025	22,486
Licenses, Fees, and Taxes	-	362	14,608	7,038	22,008
Supplies	-	8,123	9,291	2,724	20,138
Dues and Subscriptions	3,060	400	8,056	-	11,516
Class and Lecture Fees	1,500	200	-	-	1,700
Other	13,677	2,757	3,600	20,272	40,306
Miscellaneous	1,034	-	4,926	9,643	15,603
Total	<u>\$ 737,674</u>	<u>\$ 257,141</u>	<u>\$ 697,401</u>	<u>\$ 220,683</u>	<u>\$ 1,912,899</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
STATEMENT OF FUNCTIONAL EXPENSES
ELEVEN MONTHS ENDED MAY 31, 2017**

	<u>Exhibitions</u>	<u>Education</u>	<u>Operations and Administration</u>	<u>Fundraising/ Development</u>	<u>Total</u>
Salaries and Benefits	\$ 374,285	\$ 90,678	\$ 338,860	\$ 36,104	\$ 839,927
Utilities	52,600	46,025	28,273	4,603	131,501
In-Kind Expense	25,392	-	76,411	2,232	104,035
Depreciation	38,953	34,083	20,937	3,408	97,381
Professional Fees / Contract Fees	6,600	841	47,713	25,912	81,066
Printing / Promotional	24,420	1,536	2,495	37,723	66,174
Security Services	55,493	-	-	-	55,493
Repairs and Maintenance	21,148	18,503	11,366	1,850	52,867
Insurance	7,260	-	36,918	-	44,178
Advertising	4,800	1,096	91	36,821	42,808
Museum Shop - Cost of Sales	-	-	38,239	-	38,239
Supplies	674	17,166	15,488	1,944	35,272
Postage and Shipping	16,311	-	2,268	10,464	29,043
Class and Lecture Fees	27,600	-	-	-	27,600
Meetings / Hospitality	2,763	1,572	5,628	17,560	27,523
Licenses, Fees, and Taxes	-	2,301	6,344	9,474	18,119
Equipment Rentals	7,479	-	6,279	35	13,793
Dues and Subscriptions	3,115	227	6,252	250	9,844
Interest	-	-	7,351	-	7,351
Travel	1,074	261	2,057	1,516	4,908
Other	30,749	1,714	6,719	38,228	77,410
Miscellaneous	1,422	-	1,349	8,051	10,822
Total	<u>\$ 702,138</u>	<u>\$ 216,003</u>	<u>\$ 661,038</u>	<u>\$ 236,175</u>	<u>\$ 1,815,354</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
STATEMENTS OF CASH FLOWS
YEAR ENDED MAY 31, 2018 AND ELEVEN MONTHS ENDED MAY 31, 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (243,880)	\$ (83,433)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	120,428	97,381
Realized and Unrealized Gain on Investments	(136,482)	(256,170)
Contributions Restricted for Art Acquisition	(25,500)	(28,969)
Contributions Restricted for Construction	-	(6,900)
(Increase) Decrease in Assets:		
Governmental Support Receivable	(6,187)	(7,964)
Contributions Receivable	(23,450)	102,669
Other Receivables	4,215	459
Inventory - Museum Shop	(2,792)	813
Prepaid Expenses	(11,262)	6,506
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(49,306)	51,056
Deferred Revenues	(4,012)	47,821
Net Cash Used by Operating Activities	<u>(378,228)</u>	<u>(76,731)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(29,615)	(109,333)
Proceeds from Sale of Investments	954,427	497,536
Purchase of Investments	<u>(777,934)</u>	<u>(152,034)</u>
Net Cash Provided by Investing Activities	146,878	236,169
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances From Related Party	528,200	-
Payments to Related Party	(360,000)	-
Advances on Line of Credit	-	30,000
Payments on Line of Credit	-	(200,000)
Contributions Restricted for Art Acquisition	25,500	28,969
Contributions Restricted for Construction	-	6,900
Net Cash Provided (Used) by Financing Activities	<u>193,700</u>	<u>(134,131)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(37,650)	25,307
Cash and Cash Equivalents - Beginning of Year	<u>45,325</u>	<u>20,018</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 7,675</u>	<u>\$ 45,325</u>
SUPPLEMENTAL DISCLOSURE		
Cash Paid for Interest	<u>\$ -</u>	<u>\$ 7,351</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Polk Museum of Art, Inc.'s (the Museum) vision statement is "Polk Museum of Art, Inc. will be a leading innovator among Central Florida's visual arts museums." The Museum's mission statement is "As an arts leader in Florida, Polk Museum of Art educates and inspires the community through creative and diverse exhibitions and the acquisition and care of a permanent collection; cultural alliances and compelling events and programs." The Museum is primarily supported through governmental, fundraising, and sponsorship revenues.

The Museum was incorporated June 22, 1966, as Youth Museum of Imperial Polk County, Inc. It operated under several names prior to changing to Polk Museum of Art, Inc., in July 1985. The Museum opened its current facility at 800 East Palmetto Street, Lakeland, Florida, in September 1988. The American Association of Museums renewed the Museum's 10-year accreditation in March 2011.

Effective June 1, 2017, the Museum became affiliated with Florida Southern College (FSC) through a membership agreement. FSC is the sole voting member of the Museum. With the affiliation, the Museum changed its name to Polk Museum of Art at Florida Southern College. The Museum still maintains its own 501(c)(3) and will work directly with Florida Southern College in order to strengthen activities within the academic and broader community.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period including grant and contract revenues subject to review by applicable funding agencies. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The Museum has adopted Financial Accounting Standards Board Accounting Standard (FASB) Accounting Standard Codification topic, *Financial Statements of Not-for-Profit Organizations*. Under this topic, the Museum's net assets are classified into three categories: (1) unrestricted net assets, which include no donor-imposed restrictions, (2) temporarily restricted net assets, which include donor-imposed restrictions that will expire in the future and funds donated for art acquisition and (3) permanently restricted net assets, which include donor-imposed restrictions that the assets be maintained permanently.

Unrestricted net assets consist of funds that are not subject to donor-imposed stipulations.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Basis of Presentation (Continued)

Temporarily restricted net assets consist of funds subject to donor-imposed stipulations that may be met by actions of the Museum and/or the passage of time. The Museum's temporarily restricted net assets consist of funds donated for art acquisition.

Permanently restricted net assets consist of funds subject to donor-imposed stipulations requiring that they be maintained permanently by the Museum. The Museum's permanently restricted net assets consist of two cultural endowment funds (Florida Fine Arts and Cultural Endowment Funds). At May 31, 2018 and 2017, endowment principal was held for investment in various banks and brokerage houses. Income earned on the endowment funds is used for operations, art acquisition, scholarships and library purchases. There was no change in the permanently restricted net assets during 2018 or 2017.

Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Revenue Recognition

The Museum recognizes all contributed support received as an increase in net assets in the period received. Contributed support is reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted or as temporarily restricted depending on whether there is an explicit, donor-imposed time requirement as to how long the assets must be maintained. Long-lived assets are reported as permanently restricted only if the Museum must maintain the assets in perpetuity or if the donor explicitly restricted the proceeds from any future disposition of the assets to reinvestment in long-lived assets.

Cash and Cash Equivalents

For purposes of financial statement presentation and reporting of cash flows, cash and cash equivalents include cash held in checking accounts and money market funds, which are readily convertible to cash and are stated at cost, which approximates market. Short-term cash equivalents that are managed as part of long-term investment strategies are included with investments.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Receivables

The Museum's receivables mainly consist of amounts receivable from governments and governmental agencies for grants and appropriations and sponsors for sponsorships of various Museum activities. The Museum considers its receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required. The Museum does not charge interest on outstanding accounts receivable.

Deferred Revenues

Deferred revenue represents money which has been received for future activities. These revenues will be recognized as income when the activities have occurred.

Inventory – Museum Shop

Inventory is valued at the lower of cost or market on a first-in, first-out basis.

Investments

Investments are recorded in accordance with *Accounting for Certain Investments Held by Not-for-Profit Organizations*. As such, investments in marketable securities with readily determinable fair values are reported at fair value in the statement of financial position. Fair value is determined by reference to exchange or dealer-quoted process. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Unrealized gains and losses are included in the statement of activities.

Fair Value Measurement

The Museum measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Museum may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value Measurement (Continued)

The inputs used to measure fair value are categorized into the following three categories:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Museum has the ability to access quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Museum's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual Funds – Valued at the closing price reported on the active market on which the individual funds are traded.

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 Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

The Museum has the option to elect to measure financial instruments at fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Museum has not elected to measure any existing financial instruments at fair value at May 31, 2018. However, the Museum may elect to measure newly acquired financial instruments at fair value in the future.

Property and Equipment

It is the Museum's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Building and Improvements	39 to 50 Years
Furniture and Equipment	5 to 15 Years

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Collection Items

Collection items consist of art objects that are held for educational and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and kept unencumbered, and activities verifying their existence and assessing their condition are performed continuously. Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the Statement of Activities. Proceeds from deaccessions or insurance recoveries are reflected on the Statement of Activities based on the absence or existence and nature of donor-imposed restrictions. If collection items are sold, the proceeds from the sale are used to purchase additional collection items.

In-Kind Revenue

The Museum records various types of in-kind revenue including contributed facilities, professional services, advertising and materials. Contributed professional services totaled \$24,784 and \$70,675 for the year ended May 31, 2018 and eleven months ended May 31, 2017, respectively. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind revenues are offset by like amounts included in expenses.

A substantial number of volunteers have donated approximately 7,600 and 6,500 hours to the Museum's program services during the year ended May 31, 2018 and eleven months ended May 31, 2017, respectively; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Advertising

Advertising costs are expensed as incurred.

Tax Status

The Museum is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying financial statements.

The Museum has adopted the standard for accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Tax Status (Continued)

The Museum's tax returns are subject to review and examination by federal and state authorities. The Museum is not aware of any activities that would jeopardize its tax-exempt status. The Museum is not aware of any activities that are subject to tax on unrelated business income or excise taxes.

Functional Expenses

The Museum allocates its expenses on a functional basis to its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are primarily allocated based on the amount of employee time involved.

Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through September 19, 2018, the date the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 684,399	\$ 684,399
Building and Improvements	4,217,149	4,217,149
Furniture and Equipment	<u>777,275</u>	<u>747,660</u>
Subtotal	5,678,823	5,649,208
Less: Accumulated Depreciation	<u>(3,208,924)</u>	<u>(3,088,496)</u>
Total	<u><u>\$ 2,469,899</u></u>	<u><u>\$ 2,560,712</u></u>

Depreciation expense totaled \$120,428 and \$97,381 for the year ended May 31, 2018 and eleven months ended May 31, 2017, respectively.

NOTE 3 INVESTMENTS

The Museum maintains investments in mutual and money market funds at various financial institutions and brokerage houses. Of the total investments at May 31, 2018 and 2017, \$185,410 and \$291,972 were invested in cash equivalents, respectively.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 3 INVESTMENTS (CONTINUED)

Investments are carried at fair value and consist of the following as of May 31:

	<u>2018</u>	<u>2017</u>
Endowment Fund:		
Money Market Instruments	\$ 185,410	\$ 291,972
Equity Securities	15,831	12,008
Fixed Income Securities	1,979	-
Mutual Funds	3,158,738	3,097,989
Total	<u>\$ 3,361,958</u>	<u>\$ 3,401,969</u>

A summary of the return on investments for the year ended May 31, 2018 and the eleven months ended May 31, 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Realized and Unrealized Gain (Loss)	<u>\$ 136,482</u>	<u>\$ 256,170</u>

NOTE 4 FAIR VALUE MEASUREMENTS

The Museum uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Museum values all other assets and liabilities refer to Note 1 – Organization and Summary of Significant Accounting Policies.

The following tables present the fair value hierarchy for the balances of the assets of the Museum measured at fair value on a recurring basis as of May 31, 2018 and 2017:

	<u>2018</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Investments:				
Equity securities:				
US Large-cap	\$ 1,041,198	\$ -	\$ -	\$ 1,041,198
US Mid-cap	6,817	-	-	6,817
US Small-cap	138,371	-	-	138,371
International	300,534	-	-	300,534
Other	4,738	-	-	4,738
Fixed Income Money Market Instruments	185,410			185,410
Fixed Income Notes & Bonds	1,684,890	-	-	1,684,890
Total	<u>\$ 3,361,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,361,958</u>

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

	2017			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Equity securities:				
US Large-cap	\$ 1,185,100	\$ -	\$ -	\$ 1,185,100
US Small-cap	214,661	-	-	214,661
International	386,835	-	-	386,835
Other	4,726	-	-	4,726
Fixed Income Money Market Instruments	291,972			291,972
Fixed Income Notes & Bonds	1,318,675	-	-	1,318,675
Total	<u>\$ 3,401,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,401,969</u>

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets is as follows as of May 31:

	2018	2017
Purchase Art	\$ 59,304	\$ 91,782
Time Restrictions	25,500	-
Construction Costs	6,629	6,629
Total Temporarily Restricted Net Assets	<u>\$ 91,433</u>	<u>\$ 98,411</u>

NOTE 6 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of May 31, 2018 and 2017 consist of \$1,200,000. These monies are permanently restricted for the State of Florida's Fine Arts and Cultural Endowment Fund as further described in Note 7.

NOTE 7 ENDOWMENTS

In September 1986, the Museum entered into a Trust Agreement with the Division of Cultural Affairs, State of Florida, Department of State, whereby the State of Florida granted \$240,000 to the Museum, to be matched with \$360,000 of Museum funds, to make an endowment totaling \$600,000. The Museum may expend the investment proceeds of the endowment only for operating costs related to fine art activity. The Trust Agreement imposes operating and financial reporting requirements on the Museum. The grant will revert to the State of Florida if the Museum ceases to operate, is no longer a qualified sponsoring organization, files for bankruptcy, expends a portion of the endowment principal, or willfully violates provisions of the Trust Agreement.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 7 ENDOWMENTS (CONTINUED)

In October 2000, the Museum entered into a Trust Agreement with the Division of Cultural Affairs, State of Florida, Department of State, whereby the State of Florida granted \$240,000 to the Museum, to be matched with \$360,000 of Museum funds, to make an endowment totaling \$600,000. The Museum may expend the investment proceeds of the endowment only for cultural activity operating costs. The Trust Agreement imposes operating and financial reporting requirements on the Museum. The grant will revert to the State of Florida if the Museum ceases to operate, is no longer a qualified sponsoring organization, files for bankruptcy, expends a portion of the endowment principal, or willfully violates provisions of the Trust Agreement.

The Museum's endowed foundation consists primarily of funds established by the board of trustees in prior years through donations and the growth of those funds over the years. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Endowment Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As noted above, the two Trust Agreements with the Division of Cultural Affairs, totaling \$1,200,000, are classified as permanently restricted net assets. Income, realized and unrealized gains and losses and unrestricted contributions have been classified as unrestricted net assets designated by the board of trustees for endowment.

The endowment net asset composition by type of fund is as follows at May 31, 2018:

	<u>Unrestricted</u> Board Designated	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor Restricted	\$ -	\$ -	\$ 1,200,000	\$ 1,200,000
Board Designated	2,115,660	-	-	2,115,660
Total	<u>\$ 2,115,660</u>	<u>\$ -</u>	<u>\$ 1,200,000</u>	<u>\$ 3,315,660</u>

The endowment net asset composition by type of fund is as follows at May 31, 2017:

	<u>Unrestricted</u> Board Designated	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor Restricted	\$ -	\$ -	\$ 1,200,000	\$ 1,200,000
Board Designated	2,125,722	-	-	2,125,722
Total	<u>\$ 2,125,722</u>	<u>\$ -</u>	<u>\$ 1,200,000</u>	<u>\$ 3,325,722</u>

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 7 ENDOWMENTS (CONTINUED)

Changes to endowment net assets are as follows for the year ended May 31, 2018:

	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment Net Assets, Beginning of Year	\$ 2,125,722	\$ -	\$ 1,200,000	\$ 3,325,722
Investment Return:				
Investment Income	55,505	31,017	-	86,522
Net Appreciation	86,565	48,374	-	134,939
Investment Fees	(12,280)	(6,862)	-	(19,142)
Total Investment Return	129,790	72,529	-	202,319
Appropriation of Endowment:				
Assets for Expenditures	(139,852)	(72,529)	-	(212,381)
Endowment Net Assets, End of Year	<u>\$ 2,115,660</u>	<u>\$ -</u>	<u>\$ 1,200,000</u>	<u>\$ 3,315,660</u>

Changes to endowment net assets are as follows for the eleven months ended May 31, 2017:

	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment Net Assets, Beginning of Year	\$ 2,236,585	\$ -	\$ 1,200,000	\$ 3,436,585
Investment Return:				
Investment Income	42,369	23,199	-	65,568
Net Appreciation	162,737	89,105	-	251,842
Investment Fees	(13,435)	(7,356)	-	(20,791)
Total Investment Return	191,671	104,948	-	296,619
Appropriation of Endowment:				
Assets for Expenditures	(302,534)	(104,948)	-	(407,482)
Endowment Net Assets, End of Year	<u>\$ 2,125,722</u>	<u>\$ -</u>	<u>\$ 1,200,000</u>	<u>\$ 3,325,722</u>

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 7 ENDOWMENTS (CONTINUED)

Interpretation of Uniform Prudent Management of Institutional Funds

During the year ended June 30, 2011, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective in the State of Florida. In August of 2008, the FASB released new accounting guidance related to the classification of endowment fund net assets for states that have enacted versions of the UPMIFA, and enhanced disclosure for all endowment funds. Under UPMIFA, all unappropriated endowment fund assets are considered restricted. Disclosures for all endowment funds became effective July 1, 2012. As the board of trustees of the Museum is requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary which is a valid interpretation of UPMIFA.

As a result of this interpretation, the Museum 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 unrestricted board designated until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by the board of trustees.

The Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 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 Organization
- 7) The investment policies of the Organization

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 7 ENDOWMENTS (CONTINUED)

Investment Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is according to the investment policies of the board of trustees. Acceptable investments under the policy are intended to produce an absolute annualized rate of return of 8.5% and to exceed the rate of inflation (as measured by the Consumer Price Index) by 6.0%.

Strategies Employed for Achieving Objectives

The purpose of the endowment fund is to facilitate donors' desires to make substantial long-term gifts to the Museum and to develop a new and significant source of revenue for the Museum. In so doing, the endowment fund will provide a secure, long-term source of funds to use for: (a) operations; (b) art acquisition; (c) scholarships; and (d) library purchases.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The investment policies, as established by the board of trustees, allow for an amount equal to 6% of a three-year rolling average of the net market value of the endowments at March 31 to be allocated for the operating and program budget of the Museum during the ensuing fiscal year. During 2013, the Museum revised its spending policy to increase the amount to be allocated for the operating and program budget of the Museum to 9%, through March 31, 2017. The Museum stayed within these board-adopted policies for the year ended May 31, 2018 and the eleven months ended May 31, 2017.

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 or Museum policies requires to retain as a fund of perpetual duration. If this were to occur, the Museum would not expend any monies from the fund until the fair market value of the fund returns to a level above the principal. The Museum does not have any deficiencies as of May 31, 2018 and 2017.

NOTE 8 LINE OF CREDIT

The Museum maintains a \$250,000 revolving line of credit with a financial institution. Principal payments are due upon demand. The revolving credit agreement is unsecured, and bears interest at a variable rate equal to the Wall Street Journal prime rate but at no time greater than 18% or less than 4%. At May 31, 2018, the prime rate was 4.75%. No amounts were outstanding on the line of credit as of May 31, 2018 and 2017. Interest expense paid on this line of credit for the year ended May 31, 2018 and the eleven months ended May 31, 2017 was \$-0- and \$7,351, respectively.

**POLK MUSEUM OF ART, INC. DBA:
POLK MUSEUM OF ART AT FLORIDA SOUTHERN COLLEGE
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018 AND 2017**

NOTE 9 EMPLOYEE BENEFIT PLAN

The following brief description of the Polk Museum of Art, Inc. Teacher's Insurance and Annuity Association/College Retirement Equities Fund Plan (TIAA-CREF) is provided for general information purposes only. Participants should refer to the plan agreement for a more complete description of the plan's provisions.

General

The Polk Museum of Art, Inc. TIAA-CREF Plan was established, effective July 1, 1997, to provide benefits to all employees of the Museum who meet certain eligibility requirements. The TIAA-CREF Plan is a defined contribution plan in which the Museum will make contributions for qualified employees equaling 3% of gross pay after one year of service. The monthly contributions made by the Museum for vested employees are invested in separate annuity contracts chosen by each member. Upon reaching retirement age, or separating from service, each employee may specify the manner in which his or her funds are distributed within plan and legal restrictions. The cost of the Plan to the Museum for the year ended May 31, 2018 and eleven months ended May 31, 2017 is \$19,596 and \$17,910, respectively.

NOTE 10 RELATED PARTY TRANSACTIONS

The Museum, through various events during the year, incurred transactions with various board members. Total revenues received from related parties for the year ended May 31, 2018 and eleven months ended May 31, 2017 were \$164,573 and \$111,772, respectively.

The Museum also has \$168,200 due to Florida Southern College as of May 31, 2018, with no prior year equivalent.

NOTE 11 CONCENTRATIONS

As of May 31, 2018, balances due from two organizations accounted for approximately 81% of accounts receivable. One organization accounted for 83% of total accounts receivable as of May 31, 2017.