

POLK MUSEUM OF ART, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

POLK MUSEUM OF ART, INC.
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YEARS ENDED JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Polk Museum of Art, Inc.
Lakeland, Florida

We have audited the accompanying financial statements of Polk Museum of Art, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, 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.

Board of Trustees
Polk Museum of Art, Inc.

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. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Lakeland, Florida
October 11, 2016

POLK MUSEUM OF ART, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 20,018	\$ -
Governmental Support Receivable	87,008	140,540
Contributions Receivable	104,669	7,550
Other Receivables	5,839	18,197
Inventory - Museum Shop	30,984	29,863
Prepaid Expenses	17,423	25,798
Total Current Assets	<u>265,941</u>	<u>221,948</u>
ENDOWMENT ASSETS		
Cash and Cash Equivalents, Endowment	301,627	324,779
Investments Restricted for Endowment, at Fair Value	3,189,674	3,725,797
Total Endowment Assets	<u>3,491,301</u>	<u>4,050,576</u>
PROPERTY AND EQUIPMENT, NET	2,548,760	2,601,045
COLLECTION ITEMS (Note 1)	<u>-</u>	<u>-</u>
Total Assets	<u><u>\$ 6,306,002</u></u>	<u><u>\$ 6,873,569</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank Overdraft	\$ -	\$ 13,768
Accounts Payable	46,928	88,084
Line of Credit	170,000	225,000
Accrued Expenses	10,336	11,283
Deferred Revenues	2,625	11,375
Total Current Liabilities	<u>229,889</u>	<u>349,510</u>
NET ASSETS		
Unrestricted Net Assets:		
Board Designated for Long-Term Investment	2,236,585	2,694,600
Other Unrestricted	2,482,832	2,492,891
Total Unrestricted Net Assets	<u>4,719,417</u>	<u>5,187,491</u>
Temporarily Restricted Net Assets	156,696	136,568
Permanently Restricted Net Assets	1,200,000	1,200,000
Total Net Assets	<u>6,076,113</u>	<u>6,524,059</u>
Total Liabilities and Net Assets	<u><u>\$ 6,306,002</u></u>	<u><u>\$ 6,873,569</u></u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Governmental Support	\$ 361,425	\$ -	\$ -	\$ 361,425
Special Events (Net of Costs of Direct Benefits to Donors of \$79,323)	426,439	-	-	426,439
Contributions	390,595	156,900	-	547,495
Memberships	147,725	-	-	147,725
In-Kind Revenues	172,230	-	-	172,230
Program Revenue	86,000	-	-	86,000
Gift Shop Sales	81,329	-	-	81,329
Income on Long-Term Investments (Net of Fees of \$21,624)	42,490	(14,649)	-	27,841
Realized and Unrealized Loss on Investments	(93,966)	-	-	(93,966)
Other Income and Revenues	40,337	-	-	40,337
Net Assets Released from Restrictions	117,595	(117,595)	-	-
Total Support and Revenues	1,772,199	24,656	-	1,796,855
EXPENSES				
Program Expenses:				
Exhibitions	809,630	-	-	809,630
Education	260,198	-	-	260,198
Operations and Administrative	813,322	-	-	813,322
Fundraising/Development	357,123	-	-	357,123
Total Expenses	2,240,273	-	-	2,240,273
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED	(468,074)	24,656	-	(443,418)
CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED				
Purchases of Collections	(4,528)	-	-	(4,528)
Net Assets Released from Donor Restrictions to Fund Acquisitions of Art Collections	4,528	(4,528)	-	-
CHANGE IN NET ASSETS	(468,074)	20,128	-	(447,946)
Net Assets - Beginning of Year	5,187,491	136,568	1,200,000	6,524,059
NET ASSETS - END OF YEAR	<u>\$ 4,719,417</u>	<u>\$ 156,696</u>	<u>\$ 1,200,000</u>	<u>\$ 6,076,113</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Governmental Support	\$ 465,942	\$ -	\$ -	\$ 465,942
Special Events (Net of Costs of Direct Benefits to Donors of \$70,027)	444,647	-	-	444,647
Contributions	227,564	10,740	-	238,304
Memberships	161,991	-	-	161,991
In-Kind Revenues	106,042	-	-	106,042
Program Revenue	92,109	-	-	92,109
Gift Shop Sales	73,306	-	-	73,306
Income on Long-Term Investments (Net of Fees of \$24,646)	47,521	18,953	-	66,474
Realized and Unrealized Loss on Investments	(8,680)	(3,473)	-	(12,153)
Other Income and Revenues	119,999	-	-	119,999
Net Assets Released from Restrictions	72,000	(72,000)	-	-
Total Support and Revenues	1,802,441	(45,780)	-	1,756,661
EXPENSES				
Program Expenses:				
Exhibitions	788,959	-	-	788,959
Education	338,790	-	-	338,790
Operations and Administrative	750,250	-	-	750,250
Fundraising/Development	367,799	-	-	367,799
Total Expenses	2,245,798	-	-	2,245,798
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED	(443,357)	(45,780)	-	(489,137)
CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED				
Purchases of Collections	(2,470)	-	-	(2,470)
Net Assets Released from Donor Restrictions to Fund Acquisitions of Art Collections	2,470	(2,470)	-	-
CHANGE IN NET ASSETS	(443,357)	(48,250)	-	(491,607)
Net Assets - Beginning of Year	5,630,848	184,818	1,200,000	7,015,666
NET ASSETS - END OF YEAR	<u>\$ 5,187,491</u>	<u>\$ 136,568</u>	<u>\$ 1,200,000</u>	<u>\$ 6,524,059</u>

See accompanying Notes to Financial Statements.

POLK MUSEUM OF ART, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Exhibitions	Education	Operations and Administration	Fundraising/ Development	Total
Salaries and Benefits	\$ 413,322	\$ 127,040	\$ 421,256	\$ 43,531	\$ 1,005,149
Utilities	61,810	54,083	33,222	5,408	154,523
Repairs and Maintenance	22,847	19,992	12,281	1,999	57,119
In-Kind Expense	41,660	-	82,100	48,470	172,230
Depreciation	40,915	35,800	21,991	3,580	102,286
Professional Fees / Contract Fees	6,500	2,200	94,583	16,548	119,831
Printing / Promotional	33,814	1,778	5,797	34,759	76,148
Security Services	52,092	-	-	-	52,092
Advertising	8,138	570	804	39,812	49,324
Licenses, Fees, and Taxes	-	3,034	6,556	11,331	20,921
Class and Lecture Fees	52,184	-	-	-	52,184
Supplies	743	11,308	14,533	4,242	30,826
Museum Shop - Cost of Sales	-	-	45,279	-	45,279
Meetings / Hospitality	105	1,051	18,059	13,561	32,776
Postage and Shipping	20,181	26	2,425	8,122	30,754
Insurance	15,992	414	27,234	-	43,640
Travel	2,988	261	1,791	51,712	56,752
Dues and Subscriptions	3,110	869	5,824	463	10,266
Equipment Rentals	6,743	-	5,707	-	12,450
Interest	-	-	6,552	-	6,552
Other	25,716	1,772	2,211	66,314	96,013
Miscellaneous	770	-	5,117	7,271	13,158
Total	<u>\$ 809,630</u>	<u>\$ 260,198</u>	<u>\$ 813,322</u>	<u>\$ 357,123</u>	<u>\$ 2,240,273</u>

See accompanying Notes to Financial Statements.

POLK MUSEUM OF ART, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Exhibitions	Education	Operations and Administration	Fundraising/ Development	Total
Salaries and Benefits	\$ 351,536	\$ 146,365	\$ 426,307	\$ 112,057	\$ 1,036,265
Utilities	58,252	50,971	31,311	5,097	145,631
Repairs and Maintenance	49,649	43,443	26,686	4,344	124,122
In-Kind Expense	28,115	-	49,552	28,375	106,042
Depreciation	41,073	35,939	22,077	3,594	102,683
Professional Fees / Contract Fees	31,000	15,908	35,836	2,325	85,069
Printing / Promotional	23,317	1,401	6,760	33,479	64,957
Security Services	60,108	-	-	-	60,108
Advertising	13,025	1,839	655	41,973	57,492
Licenses, Fees, and Taxes	-	2,466	3,834	13,794	20,094
Class and Lecture Fees	43,449	700	-	-	44,149
Supplies	554	19,299	22,800	585	43,238
Museum Shop - Cost of Sales	-	-	42,921	-	42,921
Meetings / Hospitality	127	734	16,662	17,078	34,601
Postage and Shipping	23,386	18	2,334	8,526	34,264
Insurance	7,354	-	26,761	-	34,115
Travel	1,683	587	2,834	25,761	30,865
Dues and Subscriptions	3,110	12,667	5,373	581	21,731
Equipment Rentals	8,568	-	4,165	721	13,454
Interest	-	-	7,975	-	7,975
Temporary Contracted Labor	-	3,450	-	-	3,450
Other	43,499	3,003	14,654	62,808	123,964
Miscellaneous	1,154	-	753	6,701	8,608
Total	<u>\$ 788,959</u>	<u>\$ 338,790</u>	<u>\$ 750,250</u>	<u>\$ 367,799</u>	<u>\$ 2,245,798</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (447,946)	\$ (491,607)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	102,286	102,683
Realized (Gain) Loss on Investments	93,966	(12,153)
Contributions Restricted for Art Acquisition	(150,000)	(10,740)
Contributions Restricted for Construction	(6,900)	-
(Increase) Decrease in Assets:		
Governmental Support Receivable	53,532	(13,644)
Contributions Receivable	(97,119)	1,000
Other Receivables	12,358	30,348
Inventory - Museum Shop	(1,121)	8,085
Prepaid Expenses	8,375	(14,170)
Increase (Decrease) in Liabilities:		
Bank Overdraft	(13,768)	13,768
Accounts Payable	(41,156)	(17,272)
Accrued Expenses	(947)	1,390
Deferred Revenues	(8,750)	5,045
Net Cash Used by Operating Activities	<u>(497,190)</u>	<u>(397,267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(50,001)	-
Proceeds from Sale of Investments	1,496,105	2,965,394
Purchase of Investments	<u>(1,030,796)</u>	<u>(2,657,115)</u>
Net Cash Provided by Investing Activities	415,308	308,279
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from Line of Credit	100,000	75,000
Payments to Line of Credit	(155,000)	(25,000)
Contributions Restricted for Art Acquisition	150,000	10,740
Contributions Restricted for Construction	6,900	-
Net Cash Provided by Financing Activities	<u>101,900</u>	<u>60,740</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	20,018	(28,248)
Cash and Cash Equivalents - Beginning of Year	<u>-</u>	<u>28,248</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 20,018</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE		
Cash Paid for Interest	<u>\$ 6,552</u>	<u>\$ 7,975</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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.

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.

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.

POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

Basis of Presentation (Continued)

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 June 30, 2016 and 2015, 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 2016 or 2015.

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.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

**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.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

**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.

Government Securities – Valued at the closing price reported on the active market on which the individual securities are traded.

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 June 30, 2016. However, the Museum may elect to measure newly acquired financial instruments at fair value in the future.

**POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

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:

	<u>Years</u>
Building and Improvements	39 - 50
Furniture and Equipment	5 - 15

Collection Items

In conformity with industry practice, art purchased and donated is not recorded in the accompanying statements of financial position. Even though not recorded, the Museum's collections represent one of its most valuable assets. The Museum added 10 works of art with an estimated total of \$108,550 to its active permanent collection from July 1, 2015 through June 30, 2016, bringing the total number of works of art in the collection to 2,443 as of June 30, 2016.

The Museum employs a full-time curator to manage stewardship of the collection, under the direction of the Executive Director and the board of trustees' collections and acquisitions policy with committee oversight. Each piece is numbered and catalogued in a continuous inventory. The collection is never to be used as a financial asset for the Museum and is maintained for its inherent artistic, cultural and educational value.

For the years ended June 30, 2016 and 2015 the Museum had accessions of contributed art of \$107,550 and \$0, and purchases of \$2,278 and \$2,470 respectively.

In-Kind Revenue

The Museum records various types of in-kind revenue including contributed facilities, professional services, advertising and materials. Contributed professional services totaled \$51,863 and \$31,828 for the years ended June 30, 2016 and 2015, 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.

POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

In-Kind Revenue (Continued)

A substantial number of volunteers have donated approximately 7,200 and 7,000 hours to the Museum's program services during the years ended June 30, 2016 and 2015, respectively; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Additionally, the Museum receives a significant amount of skilled, contributed time which would otherwise have to be purchased. The value of this contributed time has been estimated and is reflected in the accompanying financial statements.

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.

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 October 11, 2016, the date the financial statements were available to be issued.

POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2016	2015
Land	\$ 684,399	\$ 684,399
Building and Improvements	4,173,031	4,173,031
Furniture and Equipment	632,444	658,869
Construction in Progress	50,000	-
	<u>5,539,874</u>	<u>5,516,299</u>
Less: Accumulated Depreciation	(2,991,114)	(2,915,254)
Total	<u>\$ 2,548,760</u>	<u>\$ 2,601,045</u>

Depreciation expense totaled \$102,286 and \$102,683 for the years ended June 30, 2016 and 2015, 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 June 30, 2016 and 2015, \$320,627 and \$324,779 was invested in cash equivalents, respectively.

Long-term investments are held in two investment groups. Group A is for permanent endowments and unappropriated net appreciation of those endowments. Group A investments are those primarily associated with the Florida Fine Arts and Cultural Endowment Funds. Group B is for other amounts, including the general endowment fund, which are designated by the board of trustees for long-term investment.

Investments are carried at fair value and consist of the following as of June 30:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Endowment Fund:				
Money Market	\$ 301,627	\$ 301,627	\$ 324,779	\$ 324,779
Mutual Funds:				
Fixed Income	775,129	776,065	506,430	521,738
Equity	926,095	926,037	1,280,675	1,172,196
International Equity	244,370	167,277	391,765	264,050
Alternative Investment	5,333	4,608	276,180	279,900
Other	1,238,747	1,217,126	1,270,747	1,224,144
Total	<u>\$ 3,491,301</u>	<u>\$ 3,392,740</u>	<u>\$ 4,050,576</u>	<u>\$ 3,786,807</u>

A summary of the return on investments is as follows as of June 30:

	2016	2015
Realized and Unrealized Gain (Loss)	<u>\$ (93,966)</u>	<u>\$ (12,153)</u>

POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 June 30:

2016				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds:				
Fixed Income	\$ 775,129	\$ -	\$ -	\$ 775,129
Equity	926,095	-	-	926,095
International Equity	244,370	-	-	244,370
Alternative Investment	5,333	-	-	5,333
Other	1,238,747	-	-	1,238,747
Total	<u>\$ 3,189,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,189,674</u>
2015				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds:				
Fixed Income	\$ 506,430	\$ -	\$ -	\$ 506,430
Equity	1,280,675	-	-	1,280,675
International Equity	391,765	-	-	391,765
Alternative Investment	276,180	-	-	276,180
Other	1,270,747	-	-	1,270,747
Total	<u>\$ 3,725,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,725,797</u>

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets is as follows as of June 30:

	2016	2015
Purchase Art	\$ 59,683	\$ 57,309
Construction Costs	97,013	-
Accumulated Investment Earnings on	-	79,259
Permanently Restricted		
Total Temporarily Restricted Net Assets	<u>\$ 156,696</u>	<u>\$ 136,568</u>

POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2016 and 2015 consisted 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.

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 June 30, 2016:

	<u>Unrestricted Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor Restricted	\$ -	\$ -	\$ 1,200,000	\$ 1,200,000
Board Designated	2,236,585	-	-	2,236,585
Total	<u>\$ 2,236,585</u>	<u>\$ -</u>	<u>\$ 1,200,000</u>	<u>\$ 3,436,585</u>

POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 ENDOWMENTS (CONTINUED)

The endowment net asset composition by type of fund is as follows at June 30, 2015:

	<u>Unrestricted</u> Board Designated	<u>Temporarily</u> Restricted	<u>Permanently</u> Restricted	<u>Total Net</u> Endowment Assets
Donor Restricted	\$ -	\$ 79,259	\$ 1,200,000	\$ 1,279,259
Board Designated	2,694,600	-	-	2,694,600
Total	<u>\$ 2,694,600</u>	<u>\$ 79,259</u>	<u>\$ 1,200,000</u>	<u>\$ 3,973,859</u>

Changes to endowment net assets are as follows for the year ended June 30, 2016:

	<u>Unrestricted</u> Board Designated	<u>Temporarily</u> Restricted	<u>Permanently</u> Restricted	<u>Total Net</u> Endowment Assets
Endowment Net Assets, Beginning of Year	\$ 2,694,600	\$ 79,259	\$ 1,200,000	\$ 3,973,859
Contributions	100,000	-	-	100,000
Investment Return:				
Investment Income	32,968	15,693	-	48,661
Net Depreciation	(49,324)	(23,478)	-	(72,802)
Investment Fees	(14,420)	(6,864)	-	(21,284)
Total Investment Return	(30,776)	(14,649)	-	(45,425)
Appropriation of Endowment:				
Assets for Expenditures	(527,239)	(64,610)	-	(591,849)
Endowment Net Assets, End of Year	<u>\$ 2,236,585</u>	<u>\$ -</u>	<u>\$ 1,200,000</u>	<u>\$ 3,436,585</u>

Changes to endowment net assets are as follows for the year ended June 30, 2015:

	<u>Unrestricted</u> Board Designated	<u>Temporarily</u> Restricted	<u>Permanently</u> Restricted	<u>Total Net</u> Endowment Assets
Endowment Net Assets, Beginning of Year	\$ 2,944,635	\$ 135,778	\$ 1,200,000	\$ 4,280,413
Contributions	-	-	-	-
Investment Return:				
Investment Income	63,758	25,998	-	89,756
Net Depreciation	(8,518)	(3,473)	-	(11,991)
Investment Fees	(17,275)	(7,044)	-	(24,319)
Total Investment Return	37,965	15,481	-	53,446
Appropriation of Endowment:				
Assets for Expenditures	(288,000)	(72,000)	-	(360,000)
Endowment Net Assets, End of Year	<u>\$ 2,694,600</u>	<u>\$ 79,259</u>	<u>\$ 1,200,000</u>	<u>\$ 3,973,859</u>

POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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%. The Museum stayed within these board-adopted policies for the fiscal year ended June 30, 2016. The Museum was not in compliance with these board-adopted policies for the fiscal year ended June 30, 2015.

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 June 30, 2016 and 2015.

NOTE 8 LINE OF CREDIT

The Museum has a \$250,000 revolving credit agreement with a bank. 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 June 30, 2016, the prime rate was 3.50%; therefore, the line of credit rate was 4% at that time. At June 30, 2016 and 2015, \$80,000 and \$25,000 respectively, was available to the Museum for draws under this agreement. Interest paid on this line of credit during the fiscal years ended June 30, 2016 and 2015 was \$6,552 and \$7,975, respectively.

POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 OPERATING LEASES

The Museum has leased equipment under various noncancellable agreements, which require various minimum annual rentals. The Museum paid \$26,319 and \$15,980 for lease expense during the years ended June 30, 2016 and 2015, respectively. The future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 23,006
2018	22,319
2019	7,800
2020	2,670
Total	<u>\$ 55,795</u>

NOTE 10 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 and 1,000 hours worked. 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 years ended June 30, 2016 and 2015 is \$21,610 and \$24,313, respectively.

NOTE 11 RELATED PARTY TRANSACTIONS

The Museum had related party transactions from the board of trustees during the year. The Museum recognized revenues amounting to \$234,961 and \$187,157 and in-kind expenses amounting to \$23,293 and \$0 for the years ended June 30, 2016, and 2015, respectively. The Museum also had \$100,000 in related party contributions receivable as of June 30, 2016, as well as \$42,000 in related party grant writing and \$7,000 in accounts payable to related parties.

**POLK MUSEUM OF ART, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Museum entered into a construction contract for \$133,699 beginning March 10, 2016. During the year ended June 30, 2016, \$50,000 was expended toward this contract and added to construction in progress. The balance remaining to be paid on the contract as of June 30, 2016 is \$83,699.