FINANCIAL STATEMENTS

January 31, 2016 and 2015

With Independent Auditor's Report
INDEPENDENT AUDITOR’S REPORT

The Board of Trustees
Portland Museum of Art

We have audited the accompanying financial statements of the Portland Museum of Art (the PMA), which comprise the balance sheets as of January 31, 2016 and 2015, 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 U.S. generally accepted accounting principles; 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 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 the PMA as of January 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC
Portland, Maine
May 25, 2016
# PORTLAND MUSEUM OF ART

## Balance Sheets

### January 31, 2016 and 2015

### ASSETS

<table>
<thead>
<tr>
<th>Item</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$224,464</td>
<td>$100,157</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>49,032</td>
<td>147,079</td>
</tr>
<tr>
<td>Inventory, at cost</td>
<td>149,994</td>
<td>182,554</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>196,163</td>
<td>220,401</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>1,077,647</td>
<td>1,357,825</td>
</tr>
<tr>
<td>Bequest receivable, net</td>
<td>369,701</td>
<td>409,461</td>
</tr>
<tr>
<td>Beneficial interests in charitable gift annuities</td>
<td>440,190</td>
<td>440,190</td>
</tr>
<tr>
<td>Art collection (Note 1)</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Land, buildings and equipment, net</td>
<td>15,889,421</td>
<td>15,704,515</td>
</tr>
<tr>
<td>Preservation in progress</td>
<td>837,234</td>
<td>789,190</td>
</tr>
<tr>
<td>Land held for future use</td>
<td>3,016,815</td>
<td>3,016,815</td>
</tr>
<tr>
<td>Investments</td>
<td>24,744,613</td>
<td>27,629,060</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$46,995,275</strong></td>
<td><strong>$49,997,248</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND NET ASSETS

#### Liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$473,682</td>
<td>$624,698</td>
</tr>
<tr>
<td>Lines of credit</td>
<td>566,000</td>
<td>852,000</td>
</tr>
<tr>
<td>Long-term note payable to bank</td>
<td>53,543</td>
<td>66,282</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>1,093,225</strong></td>
<td><strong>1,542,980</strong></td>
</tr>
</tbody>
</table>

#### Net assets

<table>
<thead>
<tr>
<th>Item</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>19,208,630</td>
<td>21,605,356</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>3,000,682</td>
<td>3,240,612</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>23,692,738</td>
<td>23,608,300</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>45,902,050</strong></td>
<td><strong>48,454,268</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$46,995,275</strong></td>
<td><strong>$49,997,248</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## PORTLAND MUSEUM OF ART

### Statements of Activities

**Years Ended January 31, 2016 and 2015**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th></th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Permanently Restricted</td>
<td>Total</td>
</tr>
<tr>
<td>Public support and revenues (losses)</td>
<td>$ 2,132,368</td>
<td>$ 2,216,562</td>
<td>$ 84,438</td>
<td>$ 4,433,368</td>
</tr>
<tr>
<td>Contributions and grants</td>
<td>661,779</td>
<td>-</td>
<td>-</td>
<td>661,779</td>
</tr>
<tr>
<td>Admissions</td>
<td>535,260</td>
<td>-</td>
<td>-</td>
<td>535,260</td>
</tr>
<tr>
<td>Program revenues</td>
<td>173,751</td>
<td>16,110</td>
<td>-</td>
<td>189,861</td>
</tr>
<tr>
<td>PMA Store revenues</td>
<td>408,819</td>
<td>-</td>
<td>-</td>
<td>408,819</td>
</tr>
<tr>
<td>Special events, net</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Return (loss) on investments</td>
<td>(378,201)</td>
<td>879,147</td>
<td>(1,936,557)</td>
<td>(1,435,611)</td>
</tr>
<tr>
<td>Total public support and revenues (losses)</td>
<td>3,533,776</td>
<td>3,111,819</td>
<td>(1,852,119)</td>
<td>4,793,476</td>
</tr>
</tbody>
</table>

|                  | 2016                      |              | 2015                      |              |
|                  | Unrestricted   | Temporarily Restricted | Permanently Restricted | Total       |
| Satisfaction of program or capital asset purchase restrictions | 2,044,049 | (2,044,049) | -            | -            |
| Expiration of time restrictions | 199,179      | (199,179)   | -            | -            |
| Restricted earnings transferred by spending policy for operations | 1,108,521 | (1,108,521) | -            | -            |
| Total net assets released from restrictions | 3,351,749 | (3,351,749) | -            | -            |

|                  | 2016                      |              | 2015                      |              |
| Transfers related to changes in permanently restricted corpus deficit | (1,936,557) | -            | 1,936,557   | -            |
| Total revenues (losses) and transfers | 4,948,968 | (239,930)   | 84,438       | 4,793,476   |

|                  | 2016                      |              | 2015                      |              |
| Expenses          | 3,315,626                 | -            | -            | 3,315,626   |
| Education         | 786,425                   | -            | -            | 786,425     |
| Collection items purchased | 970,811     | -            | -            | 970,811     |
| PMA Store         | 539,526                   | -            | -            | 539,526     |
| Management and general | 521,035    | -            | -            | 521,035     |
| Development and membership | 1,212,271   | -            | -            | 1,212,271   |
| Total expenses    | 7,345,694                 | -            | -            | 7,345,694   |
| Change in net assets | (2,396,726) | (239,930)   | 84,438       | (2,552,218) |

|                  | 2016                      |              | 2015                      |              |
| Net assets, beginning of year | 21,605,356 | 3,240,612   | 23,608,300  | 48,454,268  |
| Net assets, end of year | $19,208,630 | $ 3,000,682 | $23,692,738 | $45,902,050 |

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$(2,552,218)</td>
<td>$1,937,034</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash (used) provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>479,723</td>
<td>460,911</td>
</tr>
<tr>
<td>Net realized and unrealized losses (gains) on investments</td>
<td>1,475,107</td>
<td>(1,239,801)</td>
</tr>
<tr>
<td>Permanently restricted contributions</td>
<td>(84,438)</td>
<td>(154,220)</td>
</tr>
<tr>
<td>Contributions restricted for acquisition and preservation, investment or collection</td>
<td>(462,000)</td>
<td>(975,648)</td>
</tr>
<tr>
<td>Collection items purchased</td>
<td>970,811</td>
<td>496,500</td>
</tr>
<tr>
<td>Decrease (increase) in Accounts receivable</td>
<td>98,047</td>
<td>(9,166)</td>
</tr>
<tr>
<td>Inventories</td>
<td>32,560</td>
<td>37,719</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>24,238</td>
<td>107,443</td>
</tr>
<tr>
<td>Bequest receivable</td>
<td>39,760</td>
<td>37,135</td>
</tr>
<tr>
<td>Decrease in operating accounts payable and accrued expenses</td>
<td>(24,097)</td>
<td>(96,132)</td>
</tr>
<tr>
<td>Net cash (used) provided by operating activities</td>
<td>$(2,507)</td>
<td>601,775</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of land, building, equipment and improvements and payments for preservation</td>
<td>(689,592)</td>
<td>(2,768,792)</td>
</tr>
<tr>
<td>Payments for purchase of collection items</td>
<td>(1,120,811)</td>
<td>(246,500)</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>19,805,216</td>
<td>28,993,109</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(18,395,876)</td>
<td>(27,638,880)</td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>(401,063)</td>
<td>(1,661,063)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from permanently restricted contributions</td>
<td>254,972</td>
<td>376,792</td>
</tr>
<tr>
<td>Proceeds from contributions restricted for acquisition and preservation, investment or collection</td>
<td>571,644</td>
<td>66,003</td>
</tr>
<tr>
<td>(Repayment of) borrowings on lines of credit, net</td>
<td>(286,000)</td>
<td>657,000</td>
</tr>
<tr>
<td>Principal payments on long-term debt</td>
<td>(12,739)</td>
<td>(12,255)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>527,877</td>
<td>1,087,540</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>124,307</td>
<td>28,252</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>100,157</td>
<td>71,905</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$224,464</td>
<td>$100,157</td>
</tr>
</tbody>
</table>

Supplemental disclosures

Noncash investing transactions:

- Acquisition and preservation in progress reported as accounts payable: $44,158, $21,077
- Collection purchases reported as accounts payable: $, $250,000

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

The Portland Museum of Art (the PMA), founded in 1882, is a not-for-profit educational institution dedicated to critical excellence in the visual arts. Art acquisitions, collections care and maintenance, exhibitions, programs, and general operations are supported by membership, private and corporate donations, endowment income, foundations, and grants from national and state agencies. The Mission and Vision Statements read:

**Mission Statement**

The Portland Museum of Art strives to engage audiences in a dialogue about the relevance of art and culture to our everyday lives and is committed to the stewardship and growth of the collection.

**Vision Statement**

The Portland Museum of Art is an institution steeped in rich cultural history and alert to the opportunities of the future. Our collection guides our exhibitions and educational programs and gives shape to our institutional identity. As a vibrant art institution in the heart of a great American city, we also maintain a steadfast commitment to our community and to our region. The PMA audiences can experience the richness of Maine’s artistic legacy and our region’s cultural history, while enlarging their worlds through bridges that extend beyond the borders of Maine and New England. We believe that art can help us understand the vital relationship between the local and the global, and can anchor us as we seek to interpret the most pressing issues of our time.

Across every department, our work at the PMA is informed by our respect for artwork and art makers; by our high level of attention to the complexity of art and history; and by our engagement with our audiences and community, in the past, present, and future.

As one of the preeminent cultural institutions in northern New England, the PMA aspires to reach these goals by 2021:

- To offer a model of excellence to all of our patrons, welcoming them, delighting them, and creating new learning opportunities on every visit;

- To expand the possibilities for what an art museum can be in the 21st century, serving as a modern public forum as well as a place to engage with history;

- To be a leader in the growth and vibrancy of Portland’s urban and cultural transformation, including the revitalization of the Congress Square neighborhood; and,

- To be one of the most sought-after quintessential Maine experiences, and an institution worthy of the continued support and commitment of its community.
1. **Summary of Significant Accounting Policies**

**Financial Statement Presentation**

The Portland Museum of Art reports information regarding its financial position and activities based upon the existence or absence of donor-imposed restrictions in three categories of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets are those not subject to donor-imposed stipulations.
- Temporarily restricted net assets are those whose use has been limited by donors to a specified purpose or time period. Bequests and contributions receivable for future periods are classified as temporarily restricted until due. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The income from permanently restricted net assets may be unrestricted, temporarily restricted, or permanently restricted by donors.

**Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include money market funds and other investments with original maturities of three months or less, which are not held for investment purposes.

The PMA maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The PMA has not experienced any losses in such accounts and management believes the PMA is not exposed to any significant risk with respect to these accounts.

**Inventory**

The PMA Store inventory is carried at the lower of cost or market using the weighted average method.
Contributions

Unconditional promises to give, also known as pledges, are recorded as bequests or contributions receivable when the pledge is made. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. There were no conditional promises to give at January 31, 2016 and 2015.

Contributions of assets other than cash are recorded at their estimated fair value on the date received. Contributions and bequests to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor restrictions, if any. Management estimates an allowance for uncollectible contributions receivable based on past collection history.

The PMA reports donations of cash and other assets that must be used to acquire long-lived assets as temporarily restricted support. Absent explicit donor stipulations about how these long-lived assets must be maintained, the PMA reports expirations of donor restrictions when the long-lived assets are acquired or donated long-lived assets are placed in service.

Beneficial Interests in Charitable Gift Annuities

The PMA has been granted beneficial interests in charitable gift annuities held by outside trustees. Under the charitable gift annuity agreements, the donor receives payments until death while the PMA retains beneficial interests in remaining assets. The fair value of beneficial interests is determined using the present value of expected future cash flows, net of estimated annuity payments calculated based on actuarial assumptions. The gift amount, net of any change in value as determined annually, is included with temporarily restricted contributions in the statement of activities.

Investments

Investments in equity and debt securities with readily determinable fair values are measured at fair value in the balance sheets based on quoted market prices. Commingled fund investments are valued based on quoted market prices of the assets held by the funds. Values of investments in limited liability and closely held companies and partnerships are based on net asset values per share of the respective funds as reported in the financial statements of the related interest and provided by the investment managers. The PMA reviews and evaluates the valuations provided by the investment managers and believes that these valuations are a reasonable estimate of fair value at January 31, 2016 and 2015, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

Funds have been pooled for investment purposes. Income received and realized and unrealized gains and losses are apportioned to the participating funds based on their respective units in the pool, and then apportioned to appropriate net asset categories according to donor restrictions. The units held by each fund are determined using fair and net asset values.
Art Collection Description (Unaudited)

The PMA’s collection comprises more than 18,000 objects, representing fine and decorative arts from the 18th century to the present. These holdings include paintings, sculpture, prints, photographs, glass, ceramics, furniture, silver, artists’ books and other media. Works by George Bellows, Sir Anthony Caro, Frederic Church, Stuart Davis, John Haberle, William Harnett, Marsden Hartley, Childe Hassam, Winslow Homer, Edward Hopper, Rockwell Kent, Fitz-Henry Lane, Thomas Moran, Louise Nevelson, John Frederick Peto, Maurice Prendergast, John Singer Sargent, and Andrew Wyeth, among others, showcase the unique artistic heritage of the United States and the creative culture of Maine. European traditions are represented by works from the hand of Max Beckmann, Marc Chagall, Gustave Courbet, Edgar Degas, Jean-Auguste-Dominique Ingres, Claude Monet, Henry Matisse, and Pierre-Auguste Renoir. PMA is accredited by the American Association of Museums and adheres to best practices in developing and managing these works of art in the public trust.

Art Collection Policies

The art collection is reflected in the plant fund at a nominal value. The cost of a collection item is recorded as a decrease in net assets when purchased. The proceeds from the sale of a collection item are recorded as an increase in net assets when sold.

The collection is managed according to a policy which adheres to the standards of the American Association of Museums. The policy delineates responsibilities in such matters as museum ethics, acquisitions, loans, care of collections, and deaccessioning. Objects held in the collection are carefully tracked and monitored. The PMA’s deaccessioning policy allows for sale or trade of an object only when it is incompatible with the PMA’s collecting mission and when clear and complete title to the work is confirmed. Proceeds from the sale of an object may only be applied toward collection acquisitions.

Land, Buildings and Equipment

Land, buildings and equipment are stated at historical cost on the date acquired. Buildings and equipment are depreciated using the straight-line method over their estimated useful lives.

The principal structures that comprise the PMA complex, including the historic McLellan House (1800-1801), the Charles Quincy Clapp House (1832), the L.D.M. Sweat Memorial Galleries (1911) designed by John Calvin Stevens, the award-winning Charles Shipman Payson building (1983) designed by I.M. Pei & Partners, and the Winslow Homer Studio (1884), are all valued parts of the museum and together offer a survey of the history of American architecture and the evolution of American museum spaces.

Land Held for Future Use

Land held for future use is stated at historical cost on the date acquired or improved.
Functional Allocation of Expenses

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

Volunteer Services

Volunteers work directly with professional staff to further the PMA's mission. Volunteer positions include Docents, Homer Studio Tour Guides, Visitor Experience Volunteers, and volunteers in the Curatorial, Learning and Interpretation, Development and Communications departments. The total number of volunteer hours approximated 4,024 and 3,680 in 2016 and 2015, respectively. The value of such services has not been recorded in the financial statements.

Income Taxes

The PMA is a not-for-profit corporation as described in §501(c)(3) of the Internal Revenue Code (the Code) and, as such, is exempt from federal income taxes. In addition, the PMA has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of §509(a) of the Code.

Subsequent Events

Management has considered transactions or events occurring through May 25, 2016, which was the date that the financial statements were available to be issued.

2. Appreciation on Permanently Restricted Net Assets

Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the PMA deems all investment income on permanently restricted investments to be temporarily restricted net assets until appropriated by the Board of Trustees, unless otherwise stipulated by donors.

Interpretation of Relevant Law

The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In keeping with this interpretation, the PMA 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 in a manner consistent with the standard of prudence prescribed by UPMIFA.
In accordance with UPMIFA, the PMA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the museum and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other PMA resources
- The PMA’s Investment Policy Statement

3. **Contributions and Bequest Receivable**

Contributions and bequest receivable consist of unconditional promises to give as of January 31, as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions receivable</td>
<td>$1,112,453</td>
<td>$1,392,631</td>
</tr>
<tr>
<td>Less reserve for uncollectible pledges</td>
<td>(34,806)</td>
<td>(34,806)</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>$1,077,647</td>
<td>$1,357,825</td>
</tr>
<tr>
<td>Bequest receivable before discount</td>
<td>482,447</td>
<td>551,368</td>
</tr>
<tr>
<td>Less discount at 6.3%</td>
<td>(112,746)</td>
<td>(141,907)</td>
</tr>
<tr>
<td>Bequest receivable, net</td>
<td>369,701</td>
<td>409,461</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,447,348</strong></td>
<td><strong>$1,767,286</strong></td>
</tr>
</tbody>
</table>

Contributions and bequest receivable are expected to be received as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>$1,014,846</td>
<td>$894,092</td>
</tr>
<tr>
<td>Between one and four years</td>
<td>388,058</td>
<td>831,863</td>
</tr>
<tr>
<td>Between five and eight years</td>
<td>191,996</td>
<td>218,044</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,594,900</strong></td>
<td><strong>1,943,999</strong></td>
</tr>
<tr>
<td>Less discount on bequest receivable</td>
<td>(112,746)</td>
<td>(141,907)</td>
</tr>
<tr>
<td>Less reserve for uncollectible pledges</td>
<td>(34,806)</td>
<td>(34,806)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,447,348</strong></td>
<td><strong>$1,767,286</strong></td>
</tr>
</tbody>
</table>
4. **Land, Buildings and Equipment**

Following is a summary of land, buildings and equipment:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$5,623,932</td>
<td>$5,568,994</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>$23,063,257</td>
<td>$22,535,254</td>
</tr>
<tr>
<td>Equipment</td>
<td>$1,020,471</td>
<td>$955,382</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$29,707,660</strong></td>
<td><strong>$29,059,630</strong></td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$13,818,239</td>
<td>$13,355,115</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td><strong>$15,889,421</strong></td>
<td><strong>$15,704,515</strong></td>
</tr>
</tbody>
</table>

5. **Preservation in Progress and Land Held for Future Use**

Preservation in progress consists of costs incurred for the acquisition, preservation, and use of the Charles Quincy Clapp House purchased from the Maine College of Art by the PMA in February 2008. The Clapp House was built in 1832 by Portland businessman Charles Q. Clapp and, as a beautiful example of Greek revival architecture, the building is on the National Register of Historic Places. Required preservation costs were assessed through an architectural firm as a starting point for a property use plan.

Land held for future use is the adjacent property purchased in July 2007. The PMA demolished and abated the buildings on the property and improved the lot for parking in 2009.

In March 2014, the PMA engaged an architectural firm to design a Campus Master Plan positioning the museum for future growth and development. The architectural firm conducted an exploration of the PMA facility’s needs, determining potential uses of its property, and worked with museum leadership to create a vision for the campus consistent with the PMA’s mission. There are no significant commitments related to the design of the campus master plan as of May 25, 2016.

The PMA is in the second year of implementing a multiyear project called **Your Museum, Reimagined**, which encompasses an updated interpretation of the museum's collection and will fundamentally change the way audiences experience the PMA. This project includes reinstalling the collection in the galleries and providing new ways for the collection to be accessed. **Your Museum, Reimagined** incorporates immediate priorities identified by the Campus Master Plan, including construction of the Peggy L. Osher Art Study and Collection Committee Conference Room, a temporary exhibition space in the PMA's historic L.D.M. Sweat Memorial Galleries, an interactive learning space called The Workshop, and the Harry W. Konkel and Family Welcome Center, in addition to new internal and external wayfinding packages and the integration of the collection into the McLellan House. Commitments for these projects January 31, 2016 through May 25, 2016 totaled $243,997. Temporarily restricted net assets to these projects at January 31, 2016 include $1,599,347 of grants and contributions received and receivable.
PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2016 and 2015

6. Investments

Investments as of January 31 include the following carried at fair value:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested cash equivalents</td>
<td>$559,626</td>
<td>$894,499</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>2,907,532</td>
<td>5,363,925</td>
</tr>
<tr>
<td>Limited liability and other closely held companies</td>
<td>8,399,501</td>
<td>5,005,081</td>
</tr>
<tr>
<td>Commingled funds</td>
<td>12,077,435</td>
<td>15,270,124</td>
</tr>
<tr>
<td>Partnership interests and fund of funds</td>
<td>800,519</td>
<td>1,095,431</td>
</tr>
<tr>
<td></td>
<td><strong>$24,744,613</strong></td>
<td><strong>$27,629,060</strong></td>
</tr>
</tbody>
</table>

The permanent endowment net assets and Board designated net assets for investment are invested to maintain their real value over time after distributions pursuant to the PMA's endowment spending policy, fees, and expenses. In the selection of investments, expected total return, defined as capital appreciation plus income, is prioritized over current yield. The PMA seeks to achieve its return objectives while controlling risk through diversification among asset classes and securities that form a blended portfolio which is expected to exhibit lower volatility than its constituent investments and broader equity market indexes.

As of January 31, 2016, investments in real asset limited partnerships had remaining commitment terms from one to seven years and the PMA was committed to invest an additional $237,500 in these limited partnerships. Management expects the commitment to be funded through investment rebalancing.

Under the PMA's endowment spending policy, the amount of the endowment withdrawn for current expenses, ("Annual Payout Amount"), for each fiscal year will be determined by multiplying the distribution rate by the average market value of the fund over a defined period of time. The Annual Payout Amount will be appropriated at the beginning of each fiscal year by vote of the PMA's Board of Trustees. The 2016 distribution rates were 4.7% or 5.6% depending on the fund. The 2015 distribution rates were 4.8% or 5.7% depending on the fund. Per the Spending Policy section of the Investment Policy Statement, the distribution rate is to be reduced by .1% per year for five years until the distribution rate ranges from 4.5% to 5.4%.

Investments by class of net assets are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$1,075,170</td>
<td>$3,618,396</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>160,165</td>
<td>775,178</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>23,509,278</td>
<td>23,235,486</td>
</tr>
<tr>
<td></td>
<td><strong>$24,744,613</strong></td>
<td><strong>$27,629,060</strong></td>
</tr>
</tbody>
</table>
PORTLAND MUSEUM OF ART

Notes to Financial Statements

January 31, 2016 and 2015

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

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$ 3,618,396</td>
<td>$ 775,178</td>
<td>$ 23,235,486</td>
<td>$ 27,629,060</td>
</tr>
<tr>
<td>Contributions and other amounts invested</td>
<td>211,728</td>
<td>-</td>
<td>273,792</td>
<td>485,520</td>
</tr>
<tr>
<td>Investment loss</td>
<td></td>
<td>6,813</td>
<td>32,683</td>
<td>-</td>
</tr>
<tr>
<td>Investment income, net of $220,872      in fees</td>
<td></td>
<td>18,618</td>
<td>141,205</td>
<td>-</td>
</tr>
<tr>
<td>Realized losses on investments</td>
<td>(366,396)</td>
<td>987,669</td>
<td>(1,936,557)</td>
<td>-</td>
</tr>
<tr>
<td>Net depreciation of investments</td>
<td></td>
<td>(378,201)</td>
<td>879,147</td>
<td>(1,936,557)</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure under spending policy or expiration of restrictions</td>
<td>(440,196)</td>
<td>(1,494,160)</td>
<td>-</td>
<td>(1,934,356)</td>
</tr>
<tr>
<td>Transfer to offset underwater endowments</td>
<td>(1,936,557)</td>
<td>-</td>
<td>-</td>
<td>(1,936,557)</td>
</tr>
<tr>
<td>Endowment net assets, end of year</td>
<td>$ 1,075,170</td>
<td>$ 160,165</td>
<td>$ 23,509,278</td>
<td>$ 24,744,613</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the year ended January 31, 2015 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$ 4,150,408</td>
<td>$ 713,337</td>
<td>$ 22,879,743</td>
<td>$ 27,743,488</td>
</tr>
<tr>
<td>Contributions and other amounts invested</td>
<td>209,575</td>
<td>-</td>
<td>355,743</td>
<td>565,318</td>
</tr>
<tr>
<td>Investment return</td>
<td></td>
<td>51,079</td>
<td>331,672</td>
<td>-</td>
</tr>
<tr>
<td>Investment income, net of $124,985    in fees</td>
<td></td>
<td>450,070</td>
<td>2,847,725</td>
<td>-</td>
</tr>
<tr>
<td>Realized gains on investments</td>
<td>(463,139)</td>
<td>(1,774,218)</td>
<td>179,363</td>
<td>-</td>
</tr>
<tr>
<td>Net depreciation of investments</td>
<td></td>
<td>38,010</td>
<td>1,405,179</td>
<td>179,363</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure under spending policy or expiration of restrictions</td>
<td>(958,960)</td>
<td>(1,343,338)</td>
<td>-</td>
<td>(2,302,298)</td>
</tr>
<tr>
<td>Restore prior transfer to offset underwater endowments</td>
<td>179,363</td>
<td>-</td>
<td>(179,363)</td>
<td>-</td>
</tr>
<tr>
<td>Endowment net assets, end of year</td>
<td>$ 3,618,396</td>
<td>$ 775,178</td>
<td>$ 23,235,486</td>
<td>$ 27,629,060</td>
</tr>
</tbody>
</table>
7. **Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Pursuant to Financial Accounting Standards Board Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, fair value information by level has not been presented for certain investments valued at the net asset value per share reported by the investment manager.

Assets measured at fair value on a recurring basis are summarized below.

<table>
<thead>
<tr>
<th>Fair Value Measurements at January 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Investments</td>
</tr>
<tr>
<td>Cash equivalent investments</td>
</tr>
<tr>
<td>Money market funds</td>
</tr>
<tr>
<td>Mutual funds</td>
</tr>
<tr>
<td>Long-term capital appreciation</td>
</tr>
<tr>
<td>Commingled funds</td>
</tr>
<tr>
<td>Investments at net asset value</td>
</tr>
<tr>
<td>Total investments</td>
</tr>
<tr>
<td>Beneficial interest in charitable gift annuity</td>
</tr>
</tbody>
</table>
Notes to Financial Statements
January 31, 2016 and 2015

Fair Value Measurements at January 31, 2015

<table>
<thead>
<tr>
<th>Investments</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equivalent investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money market funds</td>
<td>$ 894,499</td>
<td>$ 894,499</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term capital appreciation</td>
<td>2,588,817</td>
<td>2,588,817</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Real assets</td>
<td>2,615,690</td>
<td>2,615,690</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed income</td>
<td>159,418</td>
<td>159,418</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commingled funds</td>
<td>15,270,124</td>
<td>-</td>
<td>15,270,124</td>
<td>-</td>
</tr>
<tr>
<td>Investments at net asset value</td>
<td>6,100,512</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total investments</td>
<td>$ 27,629,060</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beneficial interest in charitable gift annuity</td>
<td>$ 440,190</td>
<td>-</td>
<td>-</td>
<td>$ 440,190</td>
</tr>
</tbody>
</table>

Investments in general are exposed to various risks, such as interest rates, credit, and overall market volatility. As such, it is reasonably possible that changes could materially affect the amounts reported in the balance sheets and statements of activities.

Money market and mutual funds are valued based on quoted market prices. The fair value of commingled funds is based primarily on quoted market prices of the assets held by the funds which are readily redeemable. Beneficial interest in charitable gift annuity is valued based on expected future cash flows. Management believes that techniques used to value investments are not an indicator of their liquidity.

There was no 2016 and 2015 activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

8. Borrowings

The PMA has available a $1,000,000 working capital bank line of credit with interest at LIBOR plus 2.0% (2.42% at January 31, 2016), collateralized by investments. Total advances outstanding under the line were $62,000 at January 31, 2015. There were no advances outstanding at January 31, 2016.

The PMA also has available another $1,000,000 line of credit for capital asset purchases with interest at LIBOR plus 2.0% (2.42% at January 31, 2016), collateralized by investments. Total advances outstanding under the line were $566,000 and $790,000 at January 31, 2016 and 2015, respectively.

The long-term note payable to the bank is due in monthly installments of $1,258, including interest at 3.9%, through November 2019. The note is collateralized by certain equipment.
Approximate maturities of long-term debt are as follows for the years ending January 31:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>13,200</td>
</tr>
<tr>
<td>2018</td>
<td>13,800</td>
</tr>
<tr>
<td>2019</td>
<td>14,300</td>
</tr>
<tr>
<td>2020</td>
<td>12,243</td>
</tr>
<tr>
<td></td>
<td>$ 53,543</td>
</tr>
</tbody>
</table>

Interest expense and cash paid for interest during the years ended January 31, 2016 and 2015 totaled $30,510 and $19,453, respectively.

9. **Unrestricted Net Assets**

Unrestricted net assets are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment in capital assets</td>
<td>$ 16,062,954</td>
<td>$ 15,637,423</td>
</tr>
<tr>
<td>Board designated for capital and special projects</td>
<td>46,558</td>
<td>38,672</td>
</tr>
<tr>
<td>Board designated for investment</td>
<td>1,075,170</td>
<td>3,618,396</td>
</tr>
<tr>
<td>Investment in land held for future use</td>
<td>3,016,815</td>
<td>3,016,815</td>
</tr>
<tr>
<td>Other (deficit)</td>
<td>(992,867)</td>
<td>(705,950)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 19,208,630</td>
<td>$ 21,605,356</td>
</tr>
</tbody>
</table>

10. **Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Currently Available</th>
<th>Income in Excess of Spending Policy</th>
<th>Amounts Receivable in Future Periods</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$ 125,222</td>
<td>-</td>
<td>$ 40,000</td>
<td>$ 165,222</td>
</tr>
<tr>
<td>Maintenance of collection and building</td>
<td>771,258</td>
<td>-</td>
<td>1,258,726</td>
<td>2,029,984</td>
</tr>
<tr>
<td>Acquisition of art for the collection</td>
<td>134,168</td>
<td>160,165</td>
<td>33,334</td>
<td>327,667</td>
</tr>
<tr>
<td>Other restricted purposes</td>
<td>103,561</td>
<td>-</td>
<td>374,248</td>
<td>477,809</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,134,209</td>
<td>$ 160,165</td>
<td>$1,706,308</td>
<td>$3,000,682</td>
</tr>
</tbody>
</table>
11. Permanently Restricted Net Assets

At January 31, the PMA's permanently restricted net assets consist of endowment funds from which income is expendable to support the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>General operations, including $43,147 and $73,089 in contributions receivable at January 31, 2016 and 2015, respectively, and $2,230 and $21,053 in uninvested cash at January 31, 2016 and 2015.</td>
<td>$14,992,008</td>
<td>$14,991,489</td>
</tr>
<tr>
<td>Education, including $138,083 and $278,671 in contributions receivable at January 31, 2016 and 2015, respectively</td>
<td>3,154,503</td>
<td>3,151,884</td>
</tr>
<tr>
<td>Maintenance of collection and buildings</td>
<td>3,332,146</td>
<td>3,282,096</td>
</tr>
<tr>
<td>Acquisition of art for the collection</td>
<td>728,539</td>
<td>722,289</td>
</tr>
<tr>
<td>Wages and related expenses</td>
<td>1,265,328</td>
<td>1,240,328</td>
</tr>
<tr>
<td>Other</td>
<td>220,214</td>
<td>220,214</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$23,692,738</strong></td>
<td><strong>$23,608,300</strong></td>
</tr>
</tbody>
</table>

Permanently restricted investments with restrictions on income earned reflected net losses of $2,095,715 and $159,158 at January 31, 2016 and 2015, respectively, which were applied against unrestricted net assets. Future increases in market value will first restore unrestricted net assets to the extent of the prior cumulative loss recognized.

12. Revenues Reported Net of Expenses

Revenue for special events is reported net of expenses in the statements of activities. Gross revenue was $82,650 and expenses were $29,493 for the year ended January 31, 2015. There were no special events in 2016.
13. Defined Contribution Retirement Plan

The PMA has a 403(b) Plan (the Plan). All employees that work more than 1,000 hours during the Plan year are eligible to participate. Under the Plan, the PMA may make discretionary match contributions. During the years ended January 31, 2016 and 2015, the PMA contributed $32,863 and $35,257 to the Plan, respectively.