

**ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)**

**Financial Statements and
Independent Auditor's Report**

June 30, 2018 and 2017

**ALLENTOWN ART MUSEUM
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Allentown Art Museum
Allentown, PA

We have audited the accompanying financial statements of Allentown Art Museum (A Not-for-Profit Corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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 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 the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allentown Art Museum as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Congbell, Rappold & Yasaita LLP

March 12, 2019

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	June 30,	
	2018	2017
<u>Assets</u>		
Cash and Cash Equivalents	\$ 121,960	\$ 200,286
Cash and Cash Equivalents-Restricted	1,259,846	1,734,756
Accounts Receivable	401	466
Pledges Receivable (Note 3)	94,084	137,075
Deposits Receivable	100,000	-
Prepaid Expenses	133,238	110,357
Inventory	30,914	27,776
Investments (Notes 4 and 5)	11,764,640	11,567,879
Beneficial Interest in Perpetual Trusts (Note 6)	2,503,739	2,540,421
Property and Equipment (Net of Accumulated Depreciation) (Note 7)	11,578,708	11,745,668
Total Assets	<u>\$ 27,587,530</u>	<u>\$ 28,064,684</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts Payable, Accrued Expenses and Security Deposits Payable	\$ 316,989	\$ 153,878
Deferred Revenue	-	7,554
Lines of Credit (Note 8)	1,249,008	1,249,008
Total Liabilities	<u>1,565,997</u>	<u>1,410,440</u>
Net Assets		
Unrestricted:		
Board Designated for Endowment	-	2,209,462
Board Designated Operating Reserve	329,462	-
Undesignated	10,262,399	8,677,259
	10,591,861	10,886,721
Temporarily Restricted (Note 9)	3,716,846	4,048,710
Permanently Restricted (Note 9)	11,712,826	11,718,813
Total Net Assets	<u>26,021,533</u>	<u>26,654,244</u>
Total Liabilities and Net Assets	<u>\$ 27,587,530</u>	<u>\$ 28,064,684</u>

See independent auditor's report and notes to financial statements

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue, Gains and Other Support:				
Government Grants	\$ 64,362	\$ 89,734	\$ -	\$ 154,096
Gifts and Grants	1,069,561	269,017	-	1,338,578
Museum Shop	86,537	-	-	86,537
Fees and Ticket Sales	40,182	-	-	40,182
Fundraising Events	302,577	5,700	-	308,277
Book/Slide/Photo/Print Sales	6,339	-	-	6,339
Rental Income	2,850	-	-	2,850
Other Income	151	-	-	151
Endowment Draw	611,085	32,214	-	643,299
Operating Revenue Released from Restriction	517,701	(517,701)	-	-
Total Operating Revenues, Gains and Other Support	2,701,345	(121,036)	-	2,580,309
Operating Expenses:				
Program				
Exhibitions, Collections, Outreach	565,388	-	-	565,388
Education	398,806	-	-	398,806
Curatorial	599,304	-	-	599,304
Supporting Services				
Development and Marketing	701,412	-	-	701,412
General and Administrative	318,359	-	-	318,359
Directors' Office	340,001	-	-	340,001
Total Operating Expenses before Depreciation and Other Expenses	2,923,270	-	-	2,923,270
Operating Surplus (Deficit) before Depreciation and Other Expenses	(221,925)	(121,036)	-	(342,961)
Other Expenses:				
Other Expenses	(75,250)	-	-	(75,250)
Depreciation	(401,514)	-	-	(401,514)
Decrease in Net Assets from Operations	(698,689)	(121,036)	-	(819,725)
Non-Operating Activities:				
Contributions and Support	-	96,191	30,695	126,886
Art Sales	11,268	15,108	-	26,376
Insurance Proceeds	947	-	-	947
Investment Income (net)	782	424,738	-	425,520
Change in Value of Split-Interest Agreements	-	(38,491)	-	(38,491)
Net Realized and Unrealized Gains (Losses) (Less Than) In Excess of Amounts Distributed under Spending Policy	-	(35,857)	131,395	95,538
Distributions from Perpetual Trusts	-	-	(168,077)	(168,077)
Permanent Collection Items Purchased	-	(281,685)	-	(281,685)
Acquisitions Released from Restrictions	3,248	(3,248)	-	-
Capital Contributions Released from Restrictions	387,584	(387,584)	-	-
Total Non-Operating Activities	403,829	(210,828)	(5,987)	187,014
Increase (Decrease) in Net Assets	(294,860)	(331,864)	(5,987)	(632,711)
Net Assets at Beginning of Year	10,886,721	4,048,710	11,718,813	26,654,244
Net Assets at End of Year	\$ 10,591,861	\$ 3,716,846	\$ 11,712,826	\$ 26,021,533

See independent auditor's report and notes to financial statements

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue, Gains and Other Support:				
Government Grants	\$ 116,440	\$ -	\$ -	\$ 116,440
Gifts and Grants	883,168	154,000	-	1,037,168
Museum Shop	92,900	-	-	92,900
Fees and Ticket Sales	42,469	-	-	42,469
Fundraising Events	367,277	-	-	367,277
Book/Slide/Photo/Print Sales	10,491	-	-	10,491
Rental Income	4,380	-	-	4,380
Other Income	1,799	-	-	1,799
Endowment Draw	620,386	43,202	-	663,588
Operating Revenue Released from Restriction	640,031	(640,031)	-	-
Total Operating Revenues, Gains and Other Support	2,779,341	(442,829)	-	2,336,512
Operating Expenses:				
Program				
Exhibitions, Collections, Outreach	726,417	-	-	726,417
Education	397,073	-	-	397,073
Curatorial	552,436	-	-	552,436
Supporting Services				
Development and Marketing	519,084	-	-	519,084
General and Administrative	323,730	-	-	323,730
Directors' Office	299,769	-	-	299,769
Total Operating Expenses before Depreciation and Other Expenses	2,818,509	-	-	2,818,509
Operating Surplus (Deficit) before Depreciation and Other Expenses	(39,168)	(442,829)	-	(481,997)
Other Expenses:				
Other Expenses	(105,523)	-	-	(105,523)
Depreciation	(380,962)	-	-	(380,962)
Decrease in Net Assets from Operations	(525,653)	(442,829)	-	(968,482)
Non-Operating Activities:				
Contributions and Support	-	121,387	87,571	208,958
Art Sales	-	20,135	-	20,135
Insurance Proceeds	11,330	-	-	11,330
Investment Income (net)	(1,794)	367,296	-	365,502
Change in Value of Split-Interest Agreements	-	912	391	1,303
Net Realized and Unrealized Gains (Losses) (Less Than) In Excess of Amounts Distributed under Spending Policy	136,043	113,628	223,690	473,361
Distributions from Perpetual Trusts	-	-	(109,500)	(109,500)
Permanent Collection Items Purchased	-	(175,725)	-	(175,725)
Acquisitions Released from Restrictions	48,510	(48,510)	-	-
Capital Contributions Released from Restrictions	199,177	(199,177)	-	-
Total Non-Operating Activities	393,266	199,946	202,152	795,364
Increase (Decrease) in Net Assets	(132,387)	(242,883)	202,152	(173,118)
Net Assets at Beginning of Year	11,019,108	4,291,593	11,516,661	26,827,362
Net Assets at End of Year	\$ 10,886,721	\$ 4,048,710	\$ 11,718,813	\$ 26,654,244

See independent auditor's report and notes to financial statements

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	Years Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Decrease in Net Assets	\$ (632,711)	\$ (173,118)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	401,514	380,962
Net Realized and Unrealized Investment (Gains) Losses	(607,442)	(861,967)
Unamortized Discount on Pledges Receivable	38,491	(1,303)
Contributions and Investment Income Restricted for Long-Term Investment	(551,624)	(730,254)
(Increase) Decrease in Value of Perpetual Trusts	36,682	(114,190)
Permanent Art Collection and Library Purchases	281,685	175,725
(Increase) Decrease in Assets:		
Accounts Receivable	65	300
Pledges Receivable	4,500	207,777
Deposits Receivable	(100,000)	-
Prepaid Expenses	(22,881)	114,278
Inventory	(3,138)	29,796
Increase (Decrease) in Liabilities:		
Accounts Payable, Accrued Expenses and Security Deposits Payable	163,111	(1,127)
Deferred Revenue	(7,554)	7,554
Net Cash Used in Operating Activities	<u>(999,302)</u>	<u>(965,567)</u>
Cash Flows from Investing Activities		
Proceeds from Sales of Investments	765,397	770,771
Purchase of Investments	(354,716)	(394,566)
Purchases of Property and Equipment	(234,554)	(199,177)
Permanent Art Collection and Library Purchases	<u>(281,685)</u>	<u>(175,725)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(105,558)</u>	<u>1,303</u>
Cash Flows from Financing Activities		
Contributions and Investment Income Restricted for Long-Term Investment	551,624	730,254
Repayments of Long-term Debt	-	(17,155)
Payments on Line of Credit	<u>-</u>	<u>(992)</u>
Net Cash Provided by Financing Activities	<u>551,624</u>	<u>712,107</u>
Net Decrease in Cash and Cash Equivalents	(553,236)	(252,157)
Cash and Cash Equivalents, Beginning of Year	<u>1,935,042</u>	<u>2,187,199</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,381,806</u></u>	<u><u>\$ 1,935,042</u></u>
<u>Additional Disclosure of Cash Flows</u>		
Interest Paid	<u><u>\$ 62,876</u></u>	<u><u>\$ 56,105</u></u>

See independent auditor's report and notes to financial statements

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Nature of Activities

Allentown Art Museum (The Museum) is a not-for-profit corporation organized under the laws of the Commonwealth of Pennsylvania. The Museum's mission is to enrich the lives of the widest possible audience of visitors to the Museum by engaging, informing, and inspiring them through the activities of collecting, preserving, studying, exhibiting, and interpreting important works of visual art.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Museum are set forth below.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting with the principles of not-for-profit accounting.

The Museum reports contributions as restricted support if the contributions are received with donor stipulations that limit the use of the donated assets. 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. In the absence of specified donor restriction, contributions are considered available for unrestricted use. Contributions of noncash assets are recorded at estimated fair market value at the date of contribution.

Accounts Receivable

Accounts receivables consists of miscellaneous operating receivables collectible by the Museum. Accounts receivable are stated at the amount management expects to collect from the outstanding balances. As of June 30, 2018, management has determined that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Pledges Receivable

Unconditional pledges, including amounts to be received from charitable lead trusts for a specified period of time, are recorded at the present value of the estimated future cash flows computed at discount rates of 7.5% at June 30, 2018 and 2017. Amortization of the discount is included in contribution revenue. Pledges made and collected in the same reporting period are recorded when received in the appropriate net asset category. Conditional pledges are recognized when the conditions on which they depend are substantially met and become unconditional.

Basis of Presentation

The Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Unrestricted Net Assets

Unrestricted net assets include funds not subject to donor-imposed stipulations. In general, the revenues received and expenses incurred in conducting the Museum's charitable mission are included in this category.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts, grants and pledges whose use by the Museum has been limited by donors to later periods of time or after specified dates, or to a specified purpose. Temporarily restricted net assets also include activity and balances under split interest agreements or temporary trusts. Generally, on termination of the agreements or trusts, the net assets would be reclassified as unrestricted.

Permanently Restricted Net Assets

Permanently restricted net assets include gifts, trusts and pledges which are required by donor-imposed restrictions to be invested in perpetuity and only income be made available for operations in accordance with donor restrictions. Outside perpetual trusts with independent trustees are included in this category.

Use of Estimates

The preparation of 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include, cash on hand, cash in checking, and funds held in a money market mutual fund. Cash and cash equivalents exclude cash received with donor-imposed stipulations restricting its use to long-term purposes.

Investments

Investments are presented in the financial statements in the aggregate at fair market value.

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment, other than contributed property and equipment, is stated at cost. Depreciation is computed by use of the straight-line method based on estimated useful lives. The Museum has a policy to capitalize property and equipment with a cost greater than \$1,000.

Such assets and lives are generally as follows:

	<u>Years</u>
Buildings	10-50
Furniture and Equipment	5

Museum Shop Inventory

Inventory is stated at the lower cost or market, with cost determined on an average cost basis.

Permanent Art Collection and Library

The Museum's art collection and library are comprised of paintings and sculptures, prints, drawings, photographs, textiles and related historical reference material and are held for educational, research, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed periodically. Museum policy requires that proceeds from the sale of collection and library items be used to acquire other items for the permanent collection and library. The Museum's permanent art collection and library are not recorded as assets and, therefore, are not reported as assets in the statement of financial position.

Donated Services

The Museum does not record the value of donated services provided by the members of the Society of the Arts, the Allentown Art Museum Auxiliary, and the Board of Trustees. Members of these organizations contributed in excess of 10,000 hours of their time during the years ended June 30, 2018 and 2017.

Operating Measure

The Museum's operating revenue and expenses on the Statement of Activities is based on the Museum's operating budget and includes all changes in unrestricted net assets except:

- Capital Contributions
- Art Acquisition Contributions
- Investment Earnings of Acquisition and Endowment Funds
- Unrealized Gains/Losses on Endowment Funds

Deferred Revenue

Deferred revenue consists of membership dues received in advance for a future fiscal year.

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Museum is a non-profit organization exempt from income taxes under section 501(c)(3), of the internal revenue code.

The accounting standard for uncertainty in income taxes addresses the determination of whether tax benefits claims or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Museum may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Museum and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits or liabilities recorded for the fiscal years 2018 and 2017.

The Museum files its Form 990 with the United States Internal Revenue Service and Form BCO-10 with the Bureau of Charitable Organizations in Pennsylvania.

3. Pledges Receivable

Unconditional pledges receivable at June 30, 2018 and 2017 are expected to be realized in the following periods:

	2018	2017
In one year or less	\$ 94,084	\$ 169,081
Between one and five years	-	139,581
More than five years	-	-
	94,084	308,662
Less: Unamortized Discount	-	(171,587)
Pledges Receivable at Net Present Value	<u>\$ 94,084</u>	<u>\$ 137,075</u>

4. Investments

A summary of earnings on investments for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Interest and Dividends	\$ 280,137	\$ 276,444
Unrealized Gains	560,042	696,840
Realized Gains	47,400	216,419
Investment Fees	(22,694)	(20,349)
	<u>\$ 864,885</u>	<u>\$ 1,169,354</u>

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

4. Investments (Continued)

Investments, stated at fair value, are comprised of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Mutual Funds, Investing in:		
Bond Funds	\$ 4,009,003	\$ 3,948,248
U.S. Common Stock	5,096,533	4,937,245
International Common Stock	2,081,880	2,121,457
Real Estate	<u>577,224</u>	<u>560,929</u>
Total	<u>\$ 11,764,640</u>	<u>\$ 11,567,879</u>

Investment fees for the years ended June 30, 2018 and 2017 were \$22,694 and \$20,349, respectively.

5. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable, are significant to the fair value measurement and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

5. Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Investments classified within Level 3 whose fair value measurements consider several inputs may include Level 1 and/or Level 2 inputs as components of the overall fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Mutual funds: Valued at the net asset value (%NAV) of shares held by the Museum at year end.

Beneficial Interest in Perpetual Trusts: Measured on quoted market prices of the underlying securities and other relevant information generated by market transaction, divided by the Museum's share based on its pro-rata share of distributable income of the Trusts.

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 a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2018 and 2017:

	Assets at Fair Value as of June 30			
<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
U.S. Common Stocks	\$ 5,096,533	\$ -	\$ -	\$ 5,096,533
International Common Stocks	2,081,880	-	-	2,081,880
Bond Funds	4,009,003	-	-	4,009,003
Real Estate	577,224	-	-	577,224
Total Investment Assets at Fair Value	11,764,640	-	-	11,764,640
Beneficial Interest in Perpetual Trusts	-	-	2,503,739	2,503,739
Total Assets at Fair Value	<u>\$ 11,764,640</u>	<u>\$ -</u>	<u>\$ 2,503,739</u>	<u>\$ 14,268,379</u>
<u>2017</u>				
Mutual Funds				
U.S. Common Stocks	\$ 4,937,245	\$ -	\$ -	\$ 4,937,245
International Common Stocks	2,121,457	-	-	2,121,457
Bond Funds	3,948,248	-	-	3,948,248
Real Estate	560,929	-	-	560,929
Total Investment Assets at Fair Value	11,567,879	-	-	11,567,879
Beneficial Interest in Perpetual Trusts	-	-	2,540,421	2,540,421
Total Assets at Fair Value	<u>\$ 11,567,879</u>	<u>\$ -</u>	<u>\$ 2,540,421</u>	<u>\$ 14,108,300</u>

There were no transfers between Level 1, Level 2, and Level 3 investments in 2018 and 2017. Transfers are recognized at the end of the reporting period.

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

5. Fair Value Measurements (Continued)

The following table is a summary of the change in the fair value of the Museum's Level 3 assets for the years ended June 30, 2018 and 2017:

	Beneficial Interest in Perpetual Trusts	
	2018	2017
Balance, Beginning of Year	\$ 2,540,421	\$ 2,426,231
Distributions	(168,077)	(109,500)
Realized/Unrealized Gains	131,395	223,690
Balance, End of Year	<u>\$ 2,503,739</u>	<u>\$ 2,540,421</u>

Gains and losses (realized and unrealized) included in changes in net assets for the years above are reported in net realized and unrealized gains (losses) in the Statements of Activities.

6. Perpetual Trusts

The Museum is the beneficiary of perpetual irrevocable trusts held and administered by independent trustees. Under the terms of the trusts, the Museum has the irrevocable right to receive the income earned on trust assets in perpetuity. The fair value of the beneficial interest in a trust is recognized as an asset and as permanently restricted contribution at the date the trust is established. The Museum's estimate of fair value at each reporting date is based on fair value information about the trust's assets received from trustees. Trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds, and equity securities. These assets are not subject to control or direction by the Museum. Distributions of income from the trusts are reported as investment income. Gains and losses, which are not distributed by the trusts, are reflected as the change in value of perpetual trusts in the statements of activities.

7. Property and Equipment

Property, equipment and accumulated depreciation consist of the following at June 30, 2018 and 2017:

	2018	2017
Land	\$ 907,037	\$ 907,037
Buildings	16,576,267	16,429,866
Furniture and Equipment	<u>1,664,643</u>	<u>1,576,490</u>
	19,147,947	18,913,393
Less: Accumulated Depreciation	<u>(7,569,239)</u>	<u>(7,167,725)</u>
Total	<u>\$ 11,578,708</u>	<u>\$ 11,745,668</u>

Depreciation charged to expense was \$401,514 and \$380,962 for the years ended June 30, 2018 and 2017, respectively.

ALLENTOWN ART MUSEUM
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
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8. Lines of Credit

Lines of credit consist of the following:

	<u>2018</u>	<u>2017</u>
\$1,000,000 Revolving Unsecured Line of Credit with the Bank at the Bank's Prime Rate Plus 0.5%, with a floor of 4% (5.5% at June 30, 2018), Payable Upon Demand.	\$ 995,000	\$ 995,000
\$255,000 Unsecured Line of Credit with the Bank at the Wall Street Prime Rate, with a floor of 5% (5% at June 30, 2018), Due in Full Upon Demand.	<u>254,008</u>	<u>254,008</u>
	<u>\$ 1,249,008</u>	<u>\$ 1,249,008</u>

Interest paid on the lines of credit was \$62,876 and \$56,105 for the year ended June 30, 2018 and 2017, respectively.

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were restricted for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
General Operations	\$ 146,046	\$ 276,696
Grippe Collection	731,072	728,557
Capital Expenditures	146,155	533,739
Acquisitions	1,088,689	1,091,937
Earnings on Endowment for Acquisitions and Operations	1,602,384	1,405,291
Exhibitions and Collections	<u>2,500</u>	<u>12,490</u>
	<u>\$ 3,716,846</u>	<u>\$ 4,048,710</u>

Permanently restricted net assets reported in the financial statements total \$11,712,826 and \$11,718,813 at June 30, 2018 and 2017, respectively, and are required to be held in perpetuity with the expendable income earned thereon to be used to support operating expenses and acquisitions of works of art.

10. Endowment Funds

The Museum's endowment consists of various funds established to support general operations and art acquisitions through the withdrawal of income as determined by the Board and donor restrictions. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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10. Endowment Funds (Continued)

Interpretation of Relevant Law

The Museum has interpreted the laws of the Commonwealth of Pennsylvania 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. As a result of this interpretation, the organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the laws of the Commonwealth of Pennsylvania.

Endowment Return Objectives, Risk Parameters and Strategies and Spending Policy

The Museum has adopted endowment investment and spending policies which have been approved by the Board of Trustees. The goal of the endowment investment policy is to provide a total return that preserves the long-term purchasing power of the endowment's assets, while providing an income stream to support the activities and mission of the Museum through sufficient spending. To satisfy the total return objectives, the Museum relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places emphasis on equities-based securities and fixed income investments within prudent risk parameters. From time to time, the fair value of assets associated with individual donor restricted endowment funds fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. There was no deficiency of donor restricted endowment funds as of June 30, 2018 and 2017.

The 2018 Endowment Income Allocation, based upon the Total Return Concept, amounted to \$730,851 consisting of \$261,284 of current interest and dividends and \$469,567 of unrealized gains.

As of June 30, 2018 total endowment composition by net asset fund is:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board Designated Endowment	\$ -	\$ -	\$ -	\$ -
Donor Restricted Endowment	-	1,602,384	9,209,087	10,811,471
	<u>\$ -</u>	<u>\$ 1,602,384</u>	<u>\$ 9,209,087</u>	<u>\$ 10,811,471</u>

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10. Endowment Funds (Continued)

As of June 30, 2017 total endowment composition by net asset fund is:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board Designated Endowment	\$ 2,209,462	\$ -	\$ -	\$ 2,209,462
Donor Restricted Endowment	-	1,405,291	9,178,392	10,583,683
	<u>\$ 2,209,462</u>	<u>\$ 1,405,291</u>	<u>\$ 9,178,392</u>	<u>\$ 12,793,145</u>

Changes in endowment net assets for the fiscal year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at July 1, 2017	\$ 2,209,462	\$ 1,405,291	\$ 9,178,392	\$ 12,793,145
Gifts and Contributions	-	45,368	30,695	76,063
Change in Value of Split Interest Agreements	-	(11,547)	-	(11,547)
Investment Income	-	261,284	-	261,284
Investment Fees	-	(21,272)	-	(21,272)
Net Appreciation	-	566,559	-	566,559
Operating Loan Redesignation	(1,880,000)	-	-	(1,880,000)
Reclassification to Operating Reserve	(329,462)	-	-	(329,462)
Appropriation of Endowment Assets for Expenditure	-	(643,299)	-	(643,299)
Balance at June 30, 2018	<u>\$ -</u>	<u>\$ 1,602,384</u>	<u>\$ 9,209,087</u>	<u>\$ 10,811,471</u>

During the fiscal year ended June 30, 2018, the Board of Trustees passed a resolution to redesignate the loan to unrestricted net assets from the board designated endowment.

Changes in endowment net assets for the fiscal year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at July 1, 2016	\$ 2,074,501	\$ 1,110,932	\$ 9,090,430	\$ 12,275,863
Gifts and Contributions	-	-	87,571	87,571
Change in Value of Split Interest Agreements	-	-	391	391
Investment Income	-	251,909	-	251,909
Investment Fees	(3,321)	(17,028)	-	(20,349)
Net Appreciation	138,282	723,066	-	861,348
Transfers	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(663,588)	-	(663,588)
Balance at June 30, 2017	<u>\$ 2,209,462</u>	<u>\$ 1,405,291</u>	<u>\$ 9,178,392</u>	<u>\$ 12,793,145</u>

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11. Pension Plan

The Museum has a defined contribution pension plan covering all employees who work an average of 25 hours or more per week. The Museum contributes up to 5% of the earnings of eligible voluntary participants. During years ended June 30, 2018 and 2017, the Museum elected not to contribute their employer contribution.

12. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and related supporting services. Included in the supporting services expenses are fundraising expenses of \$451,928 and \$367,795 for the years ended June 30, 2018 and 2017, respectively. These fundraising expenses include the ongoing expenses of planning and development.

13. Leases

The Museum has operating leases for copiers that expire in November 2019 and August 2022. Rental expense for these leases at year end June 30, 2018 and 2017 was \$6,205 and \$8,578, respectively.

Future minimum lease payments under operating leases as of June 30, 2018 are:

2019	\$ 6,360
2020	3,735
2021	1,860
2022	1,860
2023	<u>155</u>
	<u>\$ 13,970</u>

14. Concentration of Credit Risk

The Museum maintains cash accounts with three financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. At June 30, 2018 the Museum's uninsured cash balance totaled \$894,914. Historically, the Museum has not experienced any credit losses.

15. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications did not have any impact on previously reported net assets.

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16. Advertising Expense

Advertising costs are expensed as incurred and were \$115,700 and \$70,407 for the years ended June 30, 2018 and 2017, respectively.

17. Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through March 12, 2019 the date the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.