

YOUNG AT ART OF BROWARD, INC.

Financial Statements

May 31, 2016

Robbins and Landino, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Young at Art of Broward, Inc.
Davie, Florida

We have audited the accompanying financial statements of Young at Art of Broward, Inc. (a non-profit organization), which comprise the statement of financial position as of May 31, 2016, and the related statements of activities and cash flows for the year 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 the 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 audit. We conducted our audit 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 risk 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 Young at Art of Broward, Inc. as of May 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

ROBBINS and LANDINO, P.A.
Certified Public Accountants

Robbins and Landino, P.A.

Fort Lauderdale, Florida
September 28, 2016

YOUNG AT ART OF BROWARD, INC.
Statement of Financial Position
May 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Assets				
Cash and Cash Equivalents	\$ 510,627	\$ 42,927	\$	\$ 553,554
Pledges, Grants and Other Receivables	189,604	632,830		822,434
Prepaid Expenses	48,823			48,823
Inventory	27,658			27,658
Beneficial Interest in Assets Held by the Community Foundation	(13,033)		139,483	126,450
Property and Equipment	<u>15,038,128</u>	<u> </u>	<u> </u>	<u>15,038,128</u>
Total Assets	<u>\$ 15,801,807</u>	<u>\$ 675,757</u>	<u>\$ 139,483</u>	<u>\$ 16,617,047</u>
Liabilities				
Accounts Payable and Accrued Expenses	\$ 185,286	\$	\$	\$ 185,286
Deferred Revenue	200,876			200,876
Debt Obligation	<u>10,889,579</u>	<u> </u>	<u> </u>	<u>10,889,579</u>
Total Liabilities	<u>11,275,741</u>	<u> </u>	<u> </u>	<u>11,275,741</u>
Net Assets				
Unrestricted	4,526,066			4,526,066
Temporarily Restricted		675,757		675,757
Permanently Restricted	<u> </u>	<u> </u>	<u>139,483</u>	<u>139,483</u>
Total Net Assets	<u>4,526,066</u>	<u>675,757</u>	<u>139,483</u>	<u>5,341,306</u>
Total Liabilities and Net Assets	<u>\$ 15,801,807</u>	<u>\$ 675,757</u>	<u>\$ 139,483</u>	<u>\$ 16,617,047</u>

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

YOUNG AT ART OF BROWARD, INC.
Statement of Activities
For the Year Ended May 31, 2016

	<u>Operating</u>	<u>Unrestricted Plant</u>	<u>Total</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenues						
Public Support						
Contributions and Grants	\$ 392,278	\$	\$ 392,278	\$ 649,791	\$	\$ 1,042,069
Fundraising Events	188,963		188,963			188,963
Less: Fundraising Events Expenses	(57,629)		(57,629)			(57,629)
Net Assets Release from Restrictions	526,017		526,017	(526,017)		
Contributed Materials and Services	83,743		83,743			83,743
Total Public Support	<u>1,133,372</u>		<u>1,133,372</u>	<u>123,774</u>		<u>1,257,146</u>
Revenues						
Admissions	453,090		453,090			453,090
Birthday Parties	145,908		145,908			145,908
Camps	374,855		374,855			374,855
Classes, Outreach and Workshops	358,693		358,693			358,693
Field Trips	260,342		260,342			260,342
Change in Value of Beneficial Interest	(6,918)		(6,918)			(6,918)
Memberships	395,003		395,003			395,003
Gift Shop, Net of Cost of Sales of \$51,357	28,881		28,881			28,881
Rental Income	60,820		60,820			60,820
Other	5,350		5,350			5,350
Total Revenues	<u>2,076,024</u>		<u>2,076,024</u>			<u>2,076,024</u>
Total Public Support and Revenues	<u>3,209,396</u>		<u>3,209,396</u>	<u>123,774</u>		<u>3,333,170</u>
Expenses						
Program Services	1,908,059	927,056	2,835,115			2,835,115
Marketing	198,765	8,653	207,418			207,418
General and Administrative	373,772	51,916	425,688			425,688
Gift Shop	13,697	15,066	28,763			28,763
Fundraising	248,253	15,269	263,522			263,522
Contributed Materials and Services	83,743		83,743			83,743
Total Expenses	<u>2,826,289</u>	<u>1,017,960</u>	<u>3,844,249</u>			<u>3,844,249</u>
Change in Net Assets	<u>\$ 383,107</u>	<u>\$ (1,017,960)</u>	(634,853)	123,774		(511,079)
Net Assets, Beginning of Year			<u>5,160,919</u>	<u>551,983</u>	<u>139,483</u>	<u>5,852,385</u>
Net Assets, End of Year			<u>\$ 4,526,066</u>	<u>\$ 675,757</u>	<u>\$ 139,483</u>	<u>\$ 5,341,306</u>

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

YOUNG AT ART OF BROWARD, INC.
Statement of Cash Flows
For the Year Ended May 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash Flows from Operating Activities				
Change in Net Assets	\$ (634,853)	\$ 123,774	\$	\$ (511,079)
Adjustments to Reconcile Change in Net Assets to Net Cash Flows from Operating Activities:				
Provision for Bad Debts	7,500			7,500
Depreciation	608,836			608,836
Decrease in Value of Beneficial Interest Held by Foundation	6,918			6,918
Increase in Debt Obligation Attributed to Interest Expense	59,114			59,114
Changes in Assets and Liabilities:				
(Increase) Decrease in Pledges, Grants and Other Receivables	45,983	(158,733)		(112,750)
Decrease in Prepaid Expenses	5,356			5,356
Decrease in Inventory	2,717			2,717
Increase in Accounts Payable and Accrued Expenses	20,676			20,676
Decrease in Deferred Revenue	(27,911)			(27,911)
Net Cash Flows from Operating Activities	<u>94,336</u>	<u>(34,959)</u>	<u>0</u>	<u>59,377</u>
Cash Flows from Investing Activities				
Acquisitions of Property and Equipment	(10,270)			(10,270)
Distributions from Beneficial Interest Held by Foundation	6,983			6,983
Net Cash Flows from Investing Activities	<u>(3,287)</u>	<u>0</u>	<u>0</u>	<u>(3,287)</u>
Net Change in Cash	91,049	(34,959)		56,090
Cash and Cash Equivalents, Beginning of Year	<u>419,578</u>	<u>77,886</u>	<u></u>	<u>497,464</u>
Cash and Cash Equivalents, End of Year	<u>\$ 510,627</u>	<u>\$ 42,927</u>	<u>\$ 0</u>	<u>\$ 553,554</u>
Supplementary Disclosure of Cash Flow Information:				
Cash Paid During the Year for Interest				<u>\$ 350,000</u>

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

YOUNG AT ART OF BROWARD, INC.

Notes to Financial Statements

May 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Young at Art of Broward, Inc. (the "Museum") is a Florida non-profit corporation organized to provide inspiring, interactive experiences in which art is central to shaping young minds and enriching our community.

Basis of Accounting: The financial statements of the Museum have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Date of Management's Review: In preparing the financial statements, the Museum has evaluated events and transactions for the potential recognition or disclosure through September 28, 2016 the date that the financial statements were issued.

Cash and Cash Equivalents: Cash and cash equivalents include cash in banks and money market accounts with original maturity dates of less than three months.

Museum Store Inventory: Museum store inventory is stated at the lower of cost or market on a first-in first-out method basis.

Membership Dues: Membership dues are recognized as income in the applicable membership period.

Property and Equipment: Purchased property and equipment are recorded at cost and donated assets are recorded at fair market value on the date of the gift. Depreciation is computed on a straight-line basis over estimated useful lives. When assets are retired or otherwise disposed of, the cost or donated value and related accumulated depreciation are removed from the statement of financial position and any resulting gain or loss is reflected in the statement of activities. Maintenance and repairs are charged to expense as incurred.

Fair Value of Financial Instruments: Management believes the Museum's carrying value of financial instruments, which are comprised of cash equivalents, prepaid expenses, accounts payable and accrued expenses, and deferred revenue approximate fair value due to their short-term nature.

Income Taxes: As a non-profit corporation, qualified under Section 501(c)(3) of the Internal Revenue Code, the Museum is exempt from corporate income taxation on income related to its exempt function. Therefore, no provision for income taxes has been made in the accompanying financial statements.

The Museum has not incurred any interest or penalties on its income tax returns.

The Museum's tax returns are subject to possible examination by the taxing authorities. For Federal income tax purposes, the tax returns remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Contributed Materials and Services: Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributed materials are also recorded at their fair values in the period received.

YOUNG AT ART OF BROWARD, INC.

Notes to Financial Statements

May 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation: Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Operating – Includes amounts which have no external restrictions and which are available for support of current operations.

Unrestricted Plant – Includes amounts for depreciation and interest expense on property and equipment and related debt.

Temporarily Restricted - Includes amounts, which have donor-restrictions that can be fulfilled by actions of the Museum pursuant to those restrictions or restrictions that expire by the passage of time.

Permanently Restricted – Includes amounts which have donor-restrictions that stipulate that resources be maintained permanently.

Contributions: Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Time-restricted and purpose-restricted contributions are required to be reported as temporarily restricted support unless the donor expressly stipulates otherwise. When a restriction expires (that is, when a stipulated time restriction ends or a 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. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Functional Allocation of Expenses: The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising: The Museum follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was \$90,677 for the year ended May 31, 2016.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. PLEDGES, GRANTS AND OTHER RECEIVABLES

At May 31, 2016, pledges, grants and other receivables consisted of:

Pledges Receivable	\$ 604,285
Grants Receivable	163,049
Other Receivables	<u>107,357</u>
	874,691
Less: Present Value Discount	(45,257)
Less: Allowance for Doubtful Accounts	<u>(7,000)</u>
Pledges, Grants and Other Receivables, Net	<u>\$ 822,434</u>

YOUNG AT ART OF BROWARD, INC.

Notes to Financial Statements

May 31, 2016

2. PLEDGES, GRANTS AND OTHER RECEIVABLES (continued)

Pledges, grants and other receivables at May 31, 2016 were scheduled to be collected as follows:

Year Ending May 31,	2017	\$	446,120
	2018		175,714
	2019		137,857
	2020		115,000
			<u>874,691</u>

Pledges due in more than one year are reflected at the present value of their estimated future cash flows using a discount rate of 4%.

3. PROPERTY AND EQUIPMENT

At May 31, 2016, property and equipment consisted of:

Leasehold Improvements	\$	11,730,180
Exhibits		5,302,080
Equipment		237,960
Furniture and Fixtures		219,964
		<u>17,490,184</u>
Accumulated Depreciation		<u>(2,452,056)</u>
	\$	<u>15,038,128</u>

4. BUILDING LEASE

Young at Art of Broward, Inc. entered into an agreement with Broward County, Florida (the "County") on November 27, 2006 to construct a 55,000 square foot facility consisting of the museum, County reading center and shared space (collectively referred to as the "Center"), which was completed in January 2012. The Center is constructed on land owned by the County. Under terms of the agreement, Young at Art of Broward, Inc. is responsible for 100% of the construction costs, furnishings and equipment related to the museum and 50% of the preparation of the site, design services and construction of shared spaces. Costs for the design and construction of the Center were advanced by the County. Total construction costs allocated to the museum from the County are approximately \$11 million and included and reported on the Statement of Financial Position. The County is the sole owner of the Center. Young at Art of Broward, Inc. retains ownership of all exhibits, fixtures, equipment and furnishings in the museum. The agreement also provided terms for the leasing of the Center by Young at Art of Broward, Inc. and repayment of the funds advanced by the County.

Young at Art of Broward, Inc. and the County entered into an agreement effective on February 1, 2014 ("Lease Agreement") superseding the agreement dated November 27, 2006. The term of the Lease Agreement is thirty-seven years for a rental amount of \$1 per annum. Under the Lease Agreement, Young at Art of Broward, Inc. will lease a portion of the Center and operate the museum.

Under the Lease Agreement, Young at Art of Broward, Inc. is to satisfy the obligation for the funds advanced ("Debt Obligation") under the prior agreement for the construction costs allocated to the museum.

YOUNG AT ART OF BROWARD, INC.

Notes to Financial Statements

May 31, 2016

4. BUILDING LEASE (continued)

Young at Art of Broward, Inc., in addition to the payment of the Debt Obligation, is required to pay the County commencing on March 31, 2015 and on each annual anniversary date thereafter, for so long as there remains an unpaid balance of the Debt Obligation, 50% of the amount of all future pledge payments received, as defined in the Lease Agreement. Pledges restricted by the donor for specific programs are excluded. Pledge payments are to be applied to the outstanding principle of the Debt Obligation. The pledges that are subject to payment to the County are secured.

The Lease Agreement requires Young at Art of Broward, Inc. to pay its proportionate share of common area operating expenses, as defined, and as determined by the County on a quarterly basis. For the year ended May 31, 2016 the common area expenses were approximately \$304,000.

5. RESTRICTIONS ON ASSETS

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

Capital Campaign	\$ 559,029
Programs	<u>116,728</u>
	<u>\$ 675,757</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors as follows:

Capital Campaign	\$ 222,214
Programs	<u>303,803</u>
	<u>\$ 526,017</u>

6. DEBT OBLIGATION

At May 31, 2016, debt obligation consisted of:

Due to Broward County – pursuant to an agreement with Broward County to build and construct the Center, the Museum is required to reimburse the County for its share of the costs. Under the terms of the agreement, the Museum is to satisfy the obligation for the funds advanced plus interest at the fixed rate of 3.78%. The Museum is required to pay the sum of \$350,000 annually, commencing on March 31, 2014 through December 31, 2018 with payments made in quarterly installments. Commencing on March 31, 2019 and on each quarterly payment date thereafter, the annual payment amount of \$350,000 increases 3.5% each year. The obligation is secured by the Museum's pledge receivables and contract rights as described with the County.

\$ 10,889,579

6. **DEBT OBLIGATION (continued)**

Under terms of the agreement with Broward County, the estimated payments are not sufficient to reduce the principal balance resulting in a negative amortization of the debt.

7. **CONTRIBUTED MATERIALS AND SERVICES**

The value of contributed materials and services included in the financial statements for the year ended May 31, 2016 is as follows:

Public Support:		
Events		\$ 13,503
Advertising and Marketing		70,240
		<u>\$ 83,743</u>
Expenses:		
Program Services		\$ 13,503
Marketing		70,240
		<u>\$ 83,743</u>

8. **BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION**

In prior years, the Museum transferred money to the Community Foundation of Broward (the "Foundation") to establish an endowment fund for the benefit of the Museum. Distributions to the Museum are based on the Foundation's stated "income return percentage" for the period, multiplied by the weighted average market value of the funds. The aggregate amount recognized in the statement of financial position at May 31, 2016 is \$126,450 and is recorded as "Beneficial Interest in Assets Held by Community Foundation."

9. **CONCENTRATIONS OF CREDIT RISK**

Financial instruments which potentially subject the Museum to concentrations of credit risk consist principally of cash equivalents and unsecured receivables. The Museum grants credit to donors. The Museum's ability to collect these receivables is dependent upon economic conditions and the financial condition of its donors. The Museum has not experienced significant losses related to receivables from individual customers or groups of customers. Management believes no additional credit risk beyond amounts provided for collection losses is inherent in the Museum's pledges, grants and other receivables.

At May 31, 2016, the Museum had \$207,170 in cash in excess of federally insured limits.

In the normal course of activities, the Museum receives grants and contracts from various government agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. Management of the Museum believes that the liability, if any, for any reimbursement which may arise as a result of audits would not be material.

10. FAIR VALUE MEASUREMENTS

Accounting Standards Codification 820 ("ASC 820"), Fair Value Measurements, 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 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 and significant to the fair value measurement.

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. 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 on a recurring basis:

Beneficial Interest in Community Foundation: The prorated value of the beneficial interest in the community foundation's investments is determined by the investment fund manager of the organization holding the assets. The composition of the assets held by the community foundation are invested pursuant to its governing instruments and valued accordingly.

Pledges Receivable: Valued at the estimated present value of expected future cash inflows using a 4% discount rate.

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.

10. FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of May 31, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pledges Receivable	\$ 559,028	\$	\$	\$ 559,028
Beneficial Interest in Community Foundation	<u>126,450</u>	<u> </u>	<u> </u>	<u>126,450</u>
Total Assets at Fair Value	<u>\$ 685,478</u>	<u>\$</u>	<u>\$</u>	<u>\$ 685,478</u>

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the Museum's Level 3 assets and liabilities for the year ended May 31, 2016:

	<u>Level 3 Assets</u>		
	<u>Pledges Receivable</u>	<u>Beneficial Interest in Community Foundation</u>	<u>Total</u>
Balance, beginning of year	\$ 581,347	\$ 140,351	\$ 721,698
Pledges	325,000		325,000
Receipts	(329,464)		(329,464)
Change in present value discount	(17,855)		(17,855)
Unrealized gain relating to instruments still held at the reporting date		(6,918)	(6,918)
Distributions	<u> </u>	<u>(6,983)</u>	<u>(6,983)</u>
Balance, end of year	<u>\$ 559,028</u>	<u>\$ 126,450</u>	<u>\$ 685,478</u>

The change in unrestricted net assets on the statement of activities includes a change in present value discount of \$(17,855) and the unrealized loss of \$(6,918).

11. DONOR-DESIGNATED ENDOWMENTS (UPMIFA STATE)

Accounting Standards Codification 958 ("ASC 958"), "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds", provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). ASC 958 also required additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

11. DONOR-DESIGNATED ENDOWMENTS (UPMIFA STATE) (continued)

The State of Florida enacted the "Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA") effective July 1, 2012, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors has determined that the majority of the Museum's permanently restricted net assets meet the definition of endowment funds under FUPMIFA.

The Board of Directors of the Museum has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) 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 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by FUPMIFA. In accordance with FUPMIFA, 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 various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Museum, and (7) the Museum's investment policies.

Endowment Investment and Spending Policies: The Museum has adopted investment and spending policies, approved by the Board of Directors, 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 these endowment assets over the long-term. The Museum's spending and investment policies work together to achieve this objective. The investment policy seeks to establish an achievable return objective. The Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) that is consistent with the investment policies of the community foundation managing the Museum's endowment funds.

Endowment net asset composition by type of fund as of May 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ (13,033)	\$ _____	\$ 139,483	\$ 126,450
Total Funds	<u>\$ (13,033)</u>	<u>\$ _____</u>	<u>\$ 139,483</u>	<u>\$ 126,450</u>

11. DONOR-DESIGNATED ENDOWMENTS (UPMIFA STATE) (continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 868	\$	\$ 139,483	\$ 140,351
Investment Income	(6,918)			(6,918)
Appropriation of endowment assets for expenditures	<u>(6,983)</u>	<u> </u>	<u> </u>	<u>(6,983)</u>
Endowment net assets, end of year	<u>\$ (13,033)</u>	<u>\$</u>	<u>\$ 139,483</u>	<u>\$ 126,450</u>

From time to time, the fair market value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires of the Museum to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets was \$13,033 as of May 31, 2016. These deficiencies resulted from the use of endowment funds for operating purposes, as deemed prudent by the Board of Directors.