

**MINNESOTA MUSEUM  
OF AMERICAN ART**  
AUDITED FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Minnesota Museum of American Art  
St. Paul, Minnesota

We have audited the accompanying financial statements of Minnesota Museum of American Art (a non-profit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Minnesota Museum of American Art as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Harrington Langer & Associates*

September 27, 2017

**MINNESOTA MUSEUM OF AMERICAN ART**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,762,013	\$ 2,272,647
Grants and pledges receivable, current portion	1,057,590	810,050
Inventory	20,849	12,035
Prepaid expenses	7,874	7,872
<b>TOTAL CURRENT ASSETS</b>	2,848,326	3,102,604
<b>INVESTMENTS</b>	1,461,936	1,334,488
<b>PROPERTY AND EQUIPMENT</b> , at cost, net of accumulated depreciation of \$204,509 and \$159,973, respectively	2,207,323	1,518,015
<b>OTHER ASSETS</b>		
Grants and pledges receivable, net of current portion and discounts	258,305	448,546
<b>TOTAL ASSETS</b>	<b>\$ 6,775,890</b>	<b>\$ 6,403,653</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 80,022	\$ 30,802
Accrued expenses	54,569	21,254
<b>TOTAL CURRENT LIABILITIES</b>	134,591	52,056
<b>NET ASSETS</b>		
Unrestricted	1,597,482	951,232
Temporarily restricted	3,458,286	3,763,084
Permanently restricted	1,585,531	1,637,281
<b>TOTAL NET ASSETS</b>	6,641,299	6,351,597
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,775,890</b>	<b>\$ 6,403,653</b>

**MINNESOTA MUSEUM OF AMERICAN ART**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
<b>SUPPORT AND REVENUE</b>					
<b>SUPPORT</b>					
Grants and contributions	\$ 440,171	\$ 1,019,409	\$ 3,000	\$ 1,462,580	\$ 2,848,331
Special events, net of expenses of \$60,819 and \$49,080, respectively	110,057	19,445	-	129,502	131,190
Membership	11,412	-	-	11,412	15,870
In-kind contributions	2,035	-	-	2,035	12,700
Net assets released from restrictions	1,343,652	(1,343,652)	-	-	-
<b>TOTAL SUPPORT</b>	<b>1,907,327</b>	<b>(304,798)</b>	<b>3,000</b>	<b>1,605,529</b>	<b>3,008,091</b>
<b>REVENUE</b>					
Admissions & exhibition fees	23,466	-	-	23,466	7,312
Investment income	131,890	-	-	131,890	47,493
Other	-	-	-	-	2,863
<b>TOTAL REVENUE</b>	<b>155,356</b>	<b>-</b>	<b>-</b>	<b>155,356</b>	<b>57,668</b>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>2,062,683</b>	<b>(304,798)</b>	<b>3,000</b>	<b>1,760,885</b>	<b>3,065,759</b>
<b>EXPENSES</b>					
Program	1,021,159	-	54,750	1,075,909	860,703
General and administrative	62,098	-	-	62,098	78,075
Development	333,176	-	-	333,176	302,442
<b>TOTAL EXPENSES</b>	<b>1,416,433</b>	<b>-</b>	<b>54,750</b>	<b>1,471,183</b>	<b>1,241,220</b>
<b>CHANGE IN NET ASSETS</b>	<b>646,250</b>	<b>(304,798)</b>	<b>(51,750)</b>	<b>289,702</b>	<b>1,824,539</b>
<b>NET ASSETS, BEGINNING</b>	<b>951,232</b>	<b>3,763,084</b>	<b>1,637,281</b>	<b>6,351,597</b>	<b>4,527,058</b>
<b>NET ASSETS, ENDING</b>	<b>\$ 1,597,482</b>	<b>\$ 3,458,286</b>	<b>\$ 1,585,531</b>	<b>\$ 6,641,299</b>	<b>\$ 6,351,597</b>

**MINNESOTA MUSEUM OF AMERICAN ART**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
<b>SUPPORT</b>				
Grants and contributions	\$ 150,857	\$ 2,674,599	\$ 22,875	\$ 2,848,331
Special events, net of expenses of \$49,080	131,190	-	-	131,190
Membership	15,870	-	-	15,870
In-kind contributions	12,700	-	-	12,700
Net assets released from restrictions	1,182,067	(1,182,067)	-	-
<b>TOTAL SUPPORT</b>	<b>1,492,684</b>	<b>1,492,532</b>	<b>22,875</b>	<b>3,008,091</b>
<b>REVENUE</b>				
Admissions & exhibition fees	7,312	-	-	7,312
Investment income	47,493	-	-	47,493
Other	2,863	-	-	2,863
<b>TOTAL REVENUE</b>	<b>57,668</b>	<b>-</b>	<b>-</b>	<b>57,668</b>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>1,550,352</b>	<b>1,492,532</b>	<b>22,875</b>	<b>3,065,759</b>
<b>EXPENSES</b>				
Program	793,178	-	67,525	860,703
General and administrative	78,075	-	-	78,075
Development	302,442	-	-	302,442
<b>TOTAL EXPENSES</b>	<b>1,173,695</b>	<b>-</b>	<b>67,525</b>	<b>1,241,220</b>
<b>CHANGE IN NET ASSETS</b>	<b>376,657</b>	<b>1,492,532</b>	<b>(44,650)</b>	<b>1,824,539</b>
<b>NET ASSETS, BEGINNING</b>	<b>574,575</b>	<b>2,270,552</b>	<b>1,681,931</b>	<b>4,527,058</b>
<b>NET ASSETS, ENDING</b>	<b>\$ 951,232</b>	<b>\$ 3,763,084</b>	<b>\$ 1,637,281</b>	<b>\$ 6,351,597</b>

**MINNESOTA MUSEUM OF AMERICAN ART**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 289,702	\$ 1,824,539
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,534	40,934
Realized and unrealized gain on investments	(107,609)	(19,736)
Dividends reinvested	(19,842)	(24,968)
Change in pledges receivable discount to present value	13,293	(6,054)
Stock donations	(133,706)	(982,136)
Noncash contributions of furniture	-	(12,440)
Decrease (increase) in:		
Accounts receivable, net	-	2,500
Grants and pledges receivable, net	(70,592)	(128,731)
Inventory	(8,814)	200
Prepaid expenses	-	6,384
Increase (decrease) in:		
Accounts payable	49,220	(29,265)
Accrued expenses	33,315	6,227
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>89,501</b>	<b>677,454</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(733,841)	(555,842)
Sale of investments	133,706	1,062,041
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>(600,135)</b>	<b>506,199</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(510,634)</b>	<b>1,183,653</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>2,272,647</b>	<b>1,088,994</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>\$ 1,762,013</b>	<b>\$ 2,272,647</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>		
Interest paid	\$ -	\$ 257

**MINNESOTA MUSEUM OF AMERICAN ART**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)

	Program	General and Administrative	Development	Total 2017	Total 2016
Salaries	\$ 529,805	\$ 33,532	\$ 107,302	\$ 670,639	\$ 478,774
Fringe benefits	44,736	2,831	9,060	56,627	39,118
Payroll taxes	39,280	2,486	7,955	49,721	42,748
<b>Personnel Expenses</b>	<b>613,821</b>	<b>38,849</b>	<b>124,317</b>	<b>776,987</b>	<b>560,640</b>
Professional fees	63,808	4,038	126,936	194,782	265,747
Program fees	-	-	-	-	1,196
Framing, peds and easel	5,230	-	-	5,230	1,076
Supplies	9,957	630	2,031	12,618	7,630
Telephone	10,373	657	2,101	13,131	13,205
Outside printing	13,009	823	9,251	23,083	18,790
Photography	2,605	165	528	3,298	4,351
Dues and subscriptions	6,057	383	1,347	7,787	7,663
Postage and shipping	11,607	735	3,402	15,744	8,754
Occupancy	103,790	6,569	21,021	131,380	131,902
Licenses and permits	671	42	838	1,551	639
Utilities	8,105	513	1,642	10,260	12,356
Equipment costs	7,736	490	1,696	9,922	6,370
Travel and parking	5,093	322	1,082	6,497	6,470
Meetings and hospitality	9,608	608	2,230	12,446	9,313
Professional development	14,344	908	9,710	24,962	3,544
Insurance	29,208	1,849	5,916	36,973	33,613
Publications	34,776	-	-	34,776	5,037
Promotion	35,137	2,224	7,116	44,477	20,840
Bank and credit card charge	308	20	4,738	5,066	3,562
Interest	-	-	-	-	257
Miscellaneous	734	46	149	929	9,806
Depreciation	35,182	2,227	7,125	44,534	40,934
<b>TOTAL EXPENSES</b>	<b>\$ 1,021,159</b>	<b>\$ 62,098</b>	<b>\$ 333,176</b>	<b>\$ 1,416,433</b>	<b>\$ 1,173,695</b>



**MINNESOTA MUSEUM OF AMERICAN ART**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2016

	Program	General and Administrative	Development	Total
Salaries	\$ 351,207	\$ 27,031	\$ 100,536	\$ 478,774
Fringe benefits	28,695	2,209	8,214	39,118
Payroll taxes	31,358	2,413	8,977	42,748
<b>Personnel Expenses</b>	<b>411,260</b>	<b>31,653</b>	<b>117,727</b>	<b>560,640</b>
Professional fees	98,526	15,181	152,040	265,747
Program fees	1,196	-	-	1,196
Framing, peds and easel	1,076	-	-	1,076
Supplies	5,497	423	1,710	7,630
Telephone	9,686	746	2,773	13,205
Outside printing	11,579	891	6,320	18,790
Photography	4,038	100	213	4,351
Dues and subscriptions	2,296	4,817	550	7,663
Postage and shipping	6,537	1,109	1,108	8,754
Occupancy	124,111	4,037	3,754	131,902
Licenses and permits	639	-	-	639
Utilities	9,063	698	2,595	12,356
Equipment costs	5,058	278	1,034	6,370
Travel and parking	6,470	-	-	6,470
Meetings and hospitality	2,774	193	6,346	9,313
Professional development	2,294	509	741	3,544
Insurance	20,023	13,590	-	33,613
Publications	5,037	-	-	5,037
Promotion	20,677	163	-	20,840
Bank and credit card charges	-	180	3,382	3,562
Interest	-	257	-	257
Miscellaneous	8,867	939	-	9,806
Depreciation	36,474	2,311	2,149	40,934
<b>TOTAL EXPENSES</b>	<b>\$ 793,178</b>	<b>\$ 78,075</b>	<b>\$ 302,442</b>	<b>\$ 1,173,695</b>

**MINNESOTA MUSEUM OF AMERICAN ART**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:**

The mission of Minnesota Museum of American Art (the Organization) is to inspire people to discover themselves and their communities through American art. The Organization is one of the oldest visual arts institutions in the region, with roots as an art school dating back to the 1890's.

The Organization's collection consists of American art from the 19<sup>th</sup> and 20<sup>th</sup> centuries by U.S. artists. The Organization is home to over 350 works of art by sculptor Paul Manship. A St. Paul native, Manship is perhaps best known for his sculpture of Prometheus at Rockefeller Center in New York City.

**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 disclosures 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.

**Functional Expenses:**

Expenses are allocated to program and support services directly when possible and indirectly using predetermined percentages derived from payroll statistics.

**Cash and Cash Equivalents:**

For the purpose of the statements of cash flows, the Organization considers cash and cash equivalents to include cash on hand, cash in bank, and short-term investments with an original maturity of three months or less.

**Grants, Accounts and Pledges Receivable:**

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding receivables. At June 30, 2017 and 2016, management considered all outstanding amounts to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

**Inventory:**

Inventory, consisting of books, is valued at the lower of cost (first-in, first-out) or market.

**MINNESOTA MUSEUM OF AMERICAN ART**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Investments:**

Investments are carried at fair value. Donated investments are recorded at fair market value on the date of donation. Investment income is recognized when earned. The change in unrealized gains and losses are included in the changes in net assets.

**Property and Equipment and Depreciation:**

Assets acquired by purchase are stated at cost. Assets acquired by gift, if material, are stated at their fair market value at the time of the donation.

Depreciation is computed over the estimated useful lives of the assets by the straight-line method. The following estimated useful lives are used in computing depreciation.

	<u>Years</u>
Leasehold improvements	28-39
Furniture and equipment	5-7

Depreciation expense for the years ended June 30, 2017 and 2016 amounted to \$44,534 and \$40,934, respectively.

**Art Collections:**

Art is accepted into the primary collection and is cataloged into the accession records at the time it is acquired. The primary collection is used for exhibition by the Organization or loaned to other museums. The collections committee of the Board of Trustees provides oversight in the accessioning or deaccessioning of art in the collection.

In conformity with the practice of many museums, the collection is not valued on the statements of financial position. The cost of all objects purchased is reported as a separate program expense. Proceeds from deaccessioned art are used in accordance with donor restrictions.

The Organizations collection is insured for \$30,000,000.

**Temporarily and Permanently Restricted Net Assets:**

Temporarily restricted net assets are those that are used by the Organization and have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in accordance with donor restrictions or guidelines of The American Alliance of Museums.

**MINNESOTA MUSEUM OF AMERICAN ART**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Donated Goods and Services:**

Donated goods and services are recorded at fair value at the date of donation. Donated services are recorded when there is an objective basis to measure the value of such services and the service involves specialized skills that would be purchased, if not provided by donation.

The Organization recognized in-kind contributions for the years ended June 30, 2017 and 2016 of the following:

	2017	2016
Contributed:		
Goods	\$ 160	\$ 260
Furniture	-	12,440
Project expenses	1,875	-
Special event supplies	7,946	-
	\$ 9,981	\$ 12,700

**Support and Revenue:**

Contributions received and unconditional promises to give are measured at their fair market value and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

**MINNESOTA MUSEUM OF AMERICAN ART**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Income Taxes:**

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to any extent it has taxable income that is not related to its tax exempt purpose. Unrelated business income is taxed at the corporate income tax rate. Management believes the Organization did not have any unrelated business income in the years ended June 30, 2017 and 2016.

Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

**Subsequent Events:**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 27, 2017, the date the financial statements were available to be issued.

**NOTE 2. SIGNIFICANT CONCENTRATION OF CREDIT RISK**

The Organization maintains its cash balance with a local financial institution. At June 30, 2017 and 2016, accounts at these institutions are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2017 and 2016, uninsured cash balances were approximately \$0 and \$2,040,000 respectively.

**NOTE 3. GRANTS AND PLEDGES RECEIVABLE**

Outstanding grants and pledge contributions from various foundations and individuals at June 30, 2017 and 2016 are as follows:

	2017	2016
Grants and pledges due in:		
Less than one year	\$ 1,057,590	\$ 810,050
One to five years	285,459	462,407
	1,343,049	1,272,457
Less: discount to net present value	(27,154)	(13,861)
Grants and pledges receivable, net	\$ 1,315,895	\$ 1,258,596

The present value of pledges receivable has been calculated using an interest rate of 1.82 % and 1.01% which approximates the Federal Reserve five year Treasury bill at June 30, 2017 and 2016, respectively.

**MINNESOTA MUSEUM OF AMERICAN ART**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4. INVESTMENTS**

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used for which Level 1 inputs are not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available. There are no plan assets requiring the use of Level 3 inputs for the periods presented.

Mutual funds: Valued at the closing net asset value (NAV) of shares held at the fiscal year end. If the mutual fund makes its net asset values publicly available daily to set the price for purchases and redemptions the following day.

United States government securities – Valued using quoted market prices, recent marked transactions and spread data from similar instruments.

The carrying value of investments by type at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
United States government securities - Level 2	\$ 498,282	\$ 499,535
Mutual funds - Level 1	<u>963,654</u>	<u>834,953</u>
	<u>\$ 1,461,936</u>	<u>\$ 1,334,488</u>

The following schedule summarizes the investment income for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 24,281	\$ 27,757
Realized and unrealized gains	<u>107,609</u>	<u>19,736</u>
	<u>\$ 131,890</u>	<u>\$ 47,493</u>

**MINNESOTA MUSEUM OF AMERICAN ART**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. PROPERTY AND EQUIPMENT**

A summary of property and equipment as of June 30, 2017 and 2016 are as follows:

	2017	2016
Furniture and equipment	\$ 97,478	\$ 84,020
Leasehold improvements	1,038,128	1,038,128
	1,135,606	1,122,148
Less: accumulated depreciation	(204,509)	(159,973)
	931,097	962,175
Construction in progress	1,276,226	555,840
Property and equipment, net	\$ 2,207,323	\$ 1,518,015

**NOTE 6. RETIREMENT PLANS**

The Organization has a 403(b) defined contribution retirement plan (the Plan) covering all full time employees. The Organization matches participants' contributions to the Plan up to 3% of compensation and the amount is fully vested when the contribution is made. During the years ended June 30, 2017 and 2016, the Organization contributed \$14,372 and \$12,547, respectively, to the plan.

**NOTE 7. ART ACQUISITIONS AND DISPOSITIONS**

The Organization acquires art for its collections through gifts, bequests, and purchases. Purchases of artwork since 1982 were as follows:

Year Ended June 30,	Amount
2017	\$ 54,750
2016	67,525
2015	66,650
2014	20,175
2013	65,450
1982-2011	2,820,871
	\$ 3,095,421

**MINNESOTA MUSEUM OF AMERICAN ART**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. ART ACQUISITIONS AND DISPOSITIONS (continued)**

In 1996, the Organization began a deaccession of art unrelated to the American multicultural experience (the mission of the Organization). Net proceeds from sales relating to this deaccession were as follows:

Year Ended June 30,	Amount
2005-2017	\$ -
2004	7,474
2003	-
2002	117
1996-2001	<u>2,947,300</u>
	<u><u>\$ 2,954,891</u></u>

**NOTE 8. BORROWING ARRANGEMENTS**

The Organization maintains a credit card account of which they can borrow up to \$20,000. Advances on this credit card accrued interest at a rate of 16.99% for both years ended June 30, 2017 and 2016. There were outstanding advances on this credit card account of \$0 and \$2,986 at June 30, 2017 and 2016, respectively. These amounts are included in accounts payable in the accompanying financial statements.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

Storage space is being leased under an agreement with Thompson Avenue Venture LLC that was set to expire in September 2016. The lease was subsequently renewed and will expire in October 2026. Rent expense under this lease for the years ended June 30, 2017 and 2016 was approximately \$43,000, respectively.

Office space, program facilities, and parking spaces are being leased under an agreement with PE Master Tenant, LLC. The lease was amended to include office space and options for the Organization to lease additional space provided the Organization meets certain fundraising benchmarks. This lease expires in December 2042. Rent expense under this lease for the years ended June 30, 2017 and 2016 was approximately \$95,000 and \$ 83,700, respectively.



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**NOTE 9. COMMITMENTS AND CONTINGENCIES (continued)**

Future minimum lease obligations on the above leases, as of June 30, 2017, are as follows:

Year Ending June 30,	Amount
2018	\$ 54,400
2019	54,400
2020	54,400
2021	54,400
There after	1,142,400
	\$ 1,360,000

**NOTE 10. RESTRICTED NET ASSETS**

Restricted net assets at June 30, 2017 and 2016 consisted of the following:

	2017	2016
<b>Temporarily Restricted</b>		
Capital Project, planning and development	\$ 3,242,874	\$ 3,593,983
Art Access	67,643	-
Project Space Events	20,628	-
Digitization	2,496	6,965
CreatorKids	-	2,759
General operations - time restricted	124,645	159,377
	\$ 3,458,286	\$ 3,763,084
 <b>Permanently Restricted</b>		
Art acquisitions, Ordway Fund	\$ 493,860	\$ 493,860
Art acquisitions, Brodie Fund	65,684	65,684
Art acquisitions, Acquisition Fund	1,025,987	1,077,737
	\$ 1,585,531	\$ 1,637,281

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**NOTE 11. CAPITAL CAMPAIGN**

The Organization is conducting a capital campaign for the expansion of its program facilities. As of June 30, 2017 and 2016, the Organization expended \$1,229,752 and \$963,885, respectively for amounts incurred in association with the capital campaign.

The Housing and Redevelopment Authority of St. Paul approved a Development Agreement that will allow the Organization to receive reimbursement up to \$900,000 for the cost of the capital project. This agreement was contingent on the Organization receiving financing sufficient to complete the project. As of June 30, 2017, the Organization has met the financing requirement of this agreement.

The Organization created several related entities to facilitate the financing and construction of the expansion. These entities are as follows:

**Friends of the M**, a Minnesota nonprofit corporation, a 501(c)(3) formed for the exclusive purpose of benefiting and supporting the Organization. Capital campaign fund and pledges will be transferred to Friends of the M. Friends of the M will have its own board of directors, distinct from the Organization's board of directors.

**M Property Partners LLC**, a Minnesota limited liability company, owned 1% by the Organization, 89% by M Managing Member LLC (described below), and 10% by M Master Tenant LLC (also described below). M Managing Member LLC will be the manager of M Property Partners LLC. M Property Partners LLC will acquire the leasehold interest in the Center for Creativity pursuant to a lease with an approximate 40-year term. It will borrow New Market Tax Credit loans, and use those funds and others to perform the construction. As such it will be the counterparty to the construction contract and architect agreement. Finally, it will in turn sublease the Center for Creativity to M Master Tenant LLC pursuant to a sublease with an approximate 32-year term.

June 23, 2017, M Property Partners LLC signed a construction contract for Phase I, the Center for Creativity. The contract is guaranteed not to exceed \$5,314,426.

**M Managing Member LLC**, a Minnesota limited liability company, owned 100% by the Organization. M Managing Member LLC will serve as the managing member of both M Property Partners LLC and M Master Tenant LLC, owning 89% and 1%, respectively. M Managing Member LLC will elect to be taxes as a corporation and will make a 168(h) election under the Internal Revenue Code that, among other things, will make any distributions received by the Organization from M Managing Member LLC taxable.

**M Master Tenant LLC**, a Minnesota limited liability company, owned 1% by M Managing Member LLC, and 99% by U.S. Bancorp Community Development Corporation (USBCDC), the historic tax credit investor. M Master Tenant will be managed by M Managing Member LLC. M Master Tenant will lease the Center of Creativity from M Property Partners LLC. M Master Tenant LLC will receive the historic tax credit equity from USBCDC, and will sublease the Center for Creativity to the Organization.