

DELAWARE ART MUSEUM, INC.
AUDITED FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Delaware Art Museum, Inc.

We have audited the accompanying financial statements of Delaware Art Museum, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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 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 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 Delaware Art Museum, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Delaware Art Museum, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gunnip & Company LLP

April 10, 2018

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

DELAWARE ART MUSEUM, INC.

DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash	\$ 1,119,127	\$ 629,377
Accounts receivable	71,619	25,569
Pledges receivable	150,000	155,000
Inventories	142,818	156,339
Prepaid expenses	<u>132,688</u>	<u>127,189</u>
Total current assets	1,616,252	1,093,474
PLEDGES RECEIVABLE	126,250	255,504
INVESTMENTS	23,302,244	22,052,770
BENEFICIAL INTEREST IN PERPETUAL TRUST	1,078,336	988,418
LAND, PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	21,666,252	22,443,247
COLLECTIONS (NOTE 1)	<u>0</u>	<u>0</u>
Total assets	<u>\$ 47,789,334</u>	<u>\$ 46,833,413</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 119,512	\$ 125,733
Deferred revenue	<u>53,016</u>	<u>41,944</u>
Total current liabilities	<u>172,528</u>	<u>167,677</u>
Total liabilities	172,528	167,677
NET ASSETS		
Unrestricted		
Invested in land, property and equipment	21,666,252	22,443,247
Designated to support operations	12,617,359	13,081,366
Designated for art acquisition	6,262,760	5,443,178
Undesignated	<u>1,449,644</u>	<u>808,640</u>
	41,996,015	41,776,431
Temporarily restricted	1,935,870	1,294,302
Permanently restricted	<u>3,684,921</u>	<u>3,595,003</u>
Total net assets	<u>47,616,806</u>	<u>46,665,736</u>
Total liabilities and net assets	<u>\$ 47,789,334</u>	<u>\$ 46,833,413</u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

DELAWARE ART MUSEUM, INC.

FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUES AND OTHER SUPPORT					
Public support					
Major gifts for operations	\$ 444,681	\$ 0	\$ 0	\$ 444,681	\$ 0
Annual giving	188,786	127,812		316,598	408,275
Corporate and foundation	512,385	459,177		971,562	629,115
Governmental grants	319,568	36,400		355,968	298,353
Bequest	6,796			6,796	25,010
Membership	137,555			137,555	145,530
Special events	30,319			30,319	94,032
Stabilization funds	171,015			171,015	184,989
Income from perpetual trust	27,185			27,185	26,112
Public programs					
Admissions	50,657			50,657	34,888
Curatorial	17,244			17,244	38,266
Education	242,406			242,406	215,017
Auxiliary services	162,570			162,570	157,353
Sloan artwork sales	211,336			211,336	35,839
Draw from investments	2,396,073	84,314		2,480,387	2,391,764
Miscellaneous	17,165			17,165	12,358
Total operating revenues and other support	4,935,741	707,703	0	5,643,444	4,696,901
NET ASSETS RELEASED FROM RESTRICTIONS	450,832	(450,832)	0	0	0
Total revenues, gains and other support	5,386,573	256,871	0	5,643,444	4,696,901
OPERATING EXPENSES					
Program and auxiliary services					
Curatorial	2,745,212			2,745,212	2,717,138
Education	842,768			842,768	809,897
Auxiliary services	554,627			554,627	513,783
Support activities					
Fundraising	431,868			431,868	398,278
Special Events	60,109			60,109	73,836
Marketing and Communications	315,251			315,251	193,365
Administrative	854,213			854,213	818,884
Total operating expenses	5,804,048	0	0	5,804,048	5,525,181
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(417,475)	256,871	0	(160,604)	(828,280)
NONOPERATING ACTIVITIES					
Temporarily restricted gifts released	27,746	(27,746)		0	0
Contributions for art acquisitions	50	9,150		9,200	0
Collection accessions	(105,789)			(105,789)	(191,954)
Collection deaccessions	0			0	5,500
Investment income	3,111,776	487,607		3,599,383	1,688,749
Gain - beneficial interest in perpetual trust			89,918	89,918	52,587
Loss - disposal of equipment	(651)			(651)	0
Investment drawdown for operating	(2,396,073)	(84,314)		(2,480,387)	(2,391,764)
Change in net assets from nonoperating activities	637,059	384,697	89,918	1,111,674	(836,882)
CHANGE IN NET ASSETS	219,584	641,568	89,918	951,070	(1,665,162)
NET ASSETS, BEGINNING OF YEAR	41,776,431	1,294,302	3,595,003	46,665,736	48,330,898
NET ASSETS, END OF YEAR	\$ 41,996,015	\$ 1,935,870	\$ 3,684,921	\$ 47,616,806	\$ 46,665,736

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

DELAWARE ART MUSEUM, INC.

FOR THE YEARS ENDED DECEMBER 31, 2017
AND 2016

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ 951,070	\$ (1,665,162)
Adjustments to reconcile change in net assets to net cash flow from operating activities		
Depreciation	817,133	824,638
Net realized and unrealized gains on investments	(3,599,474)	(1,688,419)
Gain - beneficial interest in perpetual trust	(89,918)	(52,587)
Changes in operating assets and liabilities		
Accounts receivable	(46,050)	82,846
Pledges receivable	134,254	199,193
Inventories	13,521	13,561
Prepaid expenses	(5,499)	21,108
Deferred revenue	11,072	(6,113)
Accounts payable	(6,221)	36,336
Net cash flow used by operating activities	<u>(1,819,461)</u>	<u>(2,234,599)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(40,789)	(72,664)
Proceeds from sale of investments	<u>2,350,000</u>	<u>2,750,000</u>
Net cash flow from investing activities	<u>2,309,211</u>	<u>2,677,336</u>
NET CHANGE IN CASH	489,750	442,737
CASH, BEGINNING OF YEAR	<u>629,377</u>	<u>186,640</u>
CASH, END OF YEAR	<u>\$ 1,119,127</u>	<u>\$ 629,377</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES	<u>None</u>	<u>None</u>

See accompanying notes to financial statements.

Note 1 Summary of Museum activities and significant accounting policies

Museum activity

Delaware Art Museum, Inc. ("the Museum") was founded as the Wilmington Society of the Fine Arts in 1912. The Museum is a not-for-profit educational institution whose purpose is to collect, preserve, exhibit and interpret works of art in three major areas: late 19th and 20th century American art, American illustration, and English Pre-Raphaelite fine and decorative art.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Prior-year information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Basis of presentation

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958 – Not-for-Profit Entities, the Museum reports 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.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Conditional promises to give are recorded as contributions in the period the condition is met. Contributions of assets other than cash are recorded at their estimated fair values. Contributions (pledges) to be received after one year are discounted at appropriate rates commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Note 1 Summary of Museum activities and significant accounting policies (cont'd)

Contributions (cont'd)

An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history, types of contribution and nature of fundraising activity.

Noncash contributions are recognized and valued at their market value or, if actual market value is not available, at an estimated value based on the fair value of similar assets.

Donated services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum. Volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Recognition of donor restrictions

Contributions that are restricted by donors are reported as increases in temporarily restricted net assets or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Cash and cash equivalents

The Museum considers all highly liquid instruments purchased with maturities of three months or less to be cash equivalents.

Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management does not provide for uncollectible accounts through a valuation allowance. Balances that management deems to be uncollectible are charged directly to bad debt expense. This methodology is not materially different than accounting principles generally accepted in the United States of America.

Inventories

Inventories, consisting of catalogs available for sale and museum shop items, are valued at the lower of cost or net realizable value using replacement cost.

Note 1 Summary of Museum activities and significant accounting policies (cont'd)

Investments

Investments are comprised of equity and fixed income mutual funds, which are stated at fair market value. Investments acquired by gift are recorded at the fair value on the date the gift was received. Realized gains and losses on the disposition of investments are determined by comparing net proceeds to the carrying value of the disposed investment.

Collections

The Museum has chosen not to capitalize its collection objects. The Museum records proceeds from deaccessions and disbursements for current period accessions in the statement of activities as revenue and expenditures, respectively. Proceeds from sales of collections are designated for the acquisition of other items for collections.

Property and equipment

Property and equipment are stated at cost. Cost is the purchase price at date of acquisition, if purchased, or fair value at date of donation, if acquired by gift. Depreciation is computed over the estimated useful lives of property and equipment using the straight-line method. The annual depreciation rates are based on the following ranges of useful lives:

Building and improvements	15-40 years
Furniture and equipment	3-10 years

Renewals and improvements are capitalized. Normal maintenance and repairs are charged to expense as incurred.

Net asset classifications

FASB ASC 958-10, Not-for-Profit Entities-Disclosure, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The accounting standard also includes 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.

Note 1 Summary of Museum activities and significant accounting policies (cont'd)

Net asset classifications (cont'd)

For the years ended December 31, 2017 and 2016, the Museum has determined that the majority of the Museum's net assets do not meet the definition of endowment under UPMIFA. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Museum.

The Museum's endowment consists of approximately twenty funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Museum has the ability to use as much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Temporarily restricted net assets consist of restricted contributions receivable and the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds.

Endowment investment and spending policies

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Museum's objective is for its spending and investment policies to work together to achieve this objective. The investment policy establishes an achievable return objective through diversification within and across asset classes. The current long-term return objective is to maintain the purchasing power of the current assets and all future contributions and maintain the level of services and programs in relation to the average cost increases. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, 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). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Note 1 Summary of Museum activities and significant accounting policies (cont'd)

Endowment investment and spending policies (cont'd)

The spending policy calculates the amount of money annually distributed from the Museums' various endowed funds to fund Museum operations and art and capital acquisitions. The current spending policy is to distribute an amount equal to 5% of a moving twelve quarter average. Distributions of less than the 5% in the current year may be accumulated and distributed in subsequent years.

Accordingly, over the long term, the objective is for the current spending policy to allow the endowment assets to grow. This is consistent with the Museum's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has the authority to approve distributions in excess of the spending policy and consider/approve such distributions as part of the annual budget process.

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Funds				
Donor-restricted	\$ 0	\$ 1,935,870	\$ 3,684,921	\$ 5,620,791
Board-designated	<u>18,880,119</u>	<u>0</u>	<u>0</u>	<u>18,880,119</u>
	<u>\$ 18,880,119</u>	<u>\$ 1,935,870</u>	<u>\$ 3,684,921</u>	<u>\$ 24,500,910</u>

Changes in endowment net assets for the year ended December 31, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets,				
Beginning of the year	\$ 18,524,544	\$ 1,294,302	\$ 3,595,003	\$ 23,413,849
Contributions	50	632,540	0	569,827
Artwork Sales	211,336	0	0	211,336
Investment income, net of fees	432,460	71,576	0	504,036
Net realized / unrealized loss	2,550,798	416,030	89,918	3,056,746
Appropriation of assets for expenditure	(564,324)	(478,578)	0	(980,139)
Net transfers from board- designated endowment	<u>(2,274,745)</u>	<u>0</u>	<u>0</u>	<u>(2,274,745)</u>
Endowment net assets, December 31, 2017	<u>\$ 18,880,119</u>	<u>\$ 1,935,870</u>	<u>\$ 3,684,921</u>	<u>\$ 24,500,910</u>

Note 1 Summary of Museum activities and significant accounting policies (cont'd)

Endowment investment and spending policies (cont'd)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Funds				
Donor-restricted	\$ 0	\$ 1,294,302	\$ 3,595,003	\$ 4,889,305
Board-designated	<u>18,524,544</u>	<u>0</u>	<u>0</u>	<u>18,524,544</u>
	<u>\$ 18,524,544</u>	<u>\$ 1,294,302</u>	<u>\$ 3,595,003</u>	<u>\$ 23,413,849</u>

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets,				
Beginning of the year	\$ 19,435,467	\$ 1,687,661	\$ 3,292,416	\$ 24,415,544
Contributions	18,933	263,375	250,000	532,308
Artwork Sales	41,339	0	0	41,339
Investment income, net of fees	456,695	59,922	0	516,617
Net realized / unrealized gain	1,006,384	123,792	52,587	1,182,763
Appropriation of assets for expenditure	(371,444)	(840,448)	0	(1,211,892)
Net transfers from board- designated endowment	<u>(2,062,830)</u>	<u>0</u>	<u>0</u>	<u>(2,062,830)</u>
Endowment net assets, December 31, 2016	<u>\$ 18,524,544</u>	<u>\$ 1,294,302</u>	<u>\$ 3,595,003</u>	<u>\$ 23,413,849</u>

Distributions from the endowment

Distributions from the endowment in 2017 and 2016 to fund current operations were \$ 2,480,387 and \$ 2,391,764, respectively which were in excess of the 5% policy distributions which would have been \$ 753,569 and \$ 815,421, respectively. Distributions from the endowment to fund art acquisitions and capital purchases in 2017 and 2016 were \$ 281,421 and \$ 267,040, respectively, and these distributions were in line with the 5% policy.

Membership dues

Membership dues are recognized as support and revenue in the period in which the dues are received by the Museum.

Note 1 Summary of Museum activities and significant accounting policies (cont'd)

Operating and other activities

The Museum's measure of operations includes all revenue and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from restricted and unrestricted net assets designated for long-term investment according to the Museum's spending policy. The measure of operations excludes support for non-operating and restricted operating activities, investment income drawdowns for capital expenditures, donated services, debt service, investment activity, including the changes in value of the perpetual trust, and accessions and deaccessions of collections.

Advertising and promotion costs

Advertising and promotion costs are charged to expense when incurred. Advertising and promotion expense for 2017 and 2016 was \$ 149,335 and \$ 131,867, respectively.

Income taxes

The Museum is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code but can be subject to tax on unrelated trade or business income; accordingly, there is no income tax provision.

The Museum follows FASB ASC 740 – Income Taxes. For the years ended December 31, 2017 and 2016, the Museum has determined it did not have a material tax liability for uncertain tax positions.

The Museum's policy for penalties and interest assessed by income taxing authorities is to include them in administrative expenses. For the years ended December 31, 2017 and 2016, the Museum did not incur any interest and penalties from taxing authorities.

The 2014, 2015 and 2016 federal Return of Organization Exempt From Income Tax (Form 990) for the Museum are subject to examination by the IRS, generally for three years after they were filed.

Subsequent events

The date to which events occurring after December 31, 2017, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is April 10, 2018, which is the date on which the financial statements were available to be issued.

Note 1 Summary of Museum activities and significant accounting policies (cont'd)

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged due to these reclassifications.

Note 2 Financial instruments

Concentrations of credit risk

Financial instruments which potentially subject the Museum to significant concentrations of credit risk are principally cash, investments, and pledges receivable.

Cash deposits are maintained in highly rated financial institutions. Cash balances may exceed the federally insured limit at various times during the year. Management continually monitors the financial strength of the institutions and the quality of its investments to minimize risk.

The museum is fully invested in diversified mutual funds at Vanguard Securities which also provides investment advisory services. The degree and concentration of risk vary by the type of the funds' underlying investments.

Pledges receivable, which represent unsecured support, are periodically reviewed by management for their collectability; an allowance for doubtful accounts is established, if required. An allowance was not established for December 31, 2017 or 2016.

Note 3 Fair value measurements

FASB ASC 820 – Fair Value Measurements and Disclosures 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 significant unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

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

Note 3 Fair value measurements (cont'd)

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 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.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash - the carrying amount reflected in the statement of financial position for cash approximates the respective fair value due to the short maturity of the instrument.

Pledges receivable - the carrying value of unconditional promises to give are reported at net realizable value using present value techniques, which approximates fair value.

Investments - the fair value of marketable fixed income and equity mutual funds is determined by reference to quoted market prices and other relevant information generated by market transactions.

Beneficial interest in perpetual trust - the fair value is estimated based on the fair value of the underlying assets in the trust.

NOTES TO FINANCIAL STATEMENTS
(cont'd)

DELAWARE ART MUSEUM, INC.

Note 3 Fair value measurements (cont'd)

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

		<u>Fair Value at Reporting Date Using</u>		
<u>December 31, 2017</u>	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Equity mutual funds				
Domestic stock – large blend	\$ 9,665,406	\$ 9,665,406	\$ 0	\$ 0
Domestic stock – real estate	1,333,403	1,333,403		
Foreign stock – large blend	6,211,100	6,211,100		
Fixed income mutual funds				
Intermediate term	1,742,990	1,742,990		
Short term	1,500,746	1,500,746		
Corporate bond	1,533,641	1,533,641		
World bond	1,314,958	1,314,958		
Beneficial interest in perpetual trust	<u>1,078,336</u>	<u>0</u>	<u>1,078,336</u>	<u>0</u>
Total financial assets	<u>\$ 24,380,580</u>	<u>\$ 23,302,244</u>	<u>\$ 1,078,336</u>	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS
(cont'd)

DELAWARE ART MUSEUM, INC.

Note 3 Fair value measurements (cont'd)

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

		<u>Fair Value at Reporting Date Using</u>		
<u>December 31, 2016</u>	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Equity mutual funds				
Domestic stock – large blend	\$ 9,125,472	\$ 9,125,472	\$ 0	\$ 0
Domestic stock – real estate	1,270,783	1,270,783		
International stock – large blend	5,719,937	5,719,937		
Fixed income mutual funds				
Intermediate term	3,154,106	3,154,106		
Short term	1,498,221	1,498,221		
World bond	1,284,251	1,284,251		
Beneficial interest in perpetual trust	<u>988,418</u>	<u>0</u>	<u>988,418</u>	<u>0</u>
Total financial assets	<u>\$ 23,041,188</u>	<u>\$ 22,052,770</u>	<u>\$ 988,418</u>	<u>\$ 0</u>

Note 4 Pledges receivable

Pledges receivable consisted of the following at December 31:

	2017	2016
Receivable in less than one year	\$ 150,000	\$ 155,000
Receivable in one to five years	150,000	300,000
Receivable in greater than five years	<u>0</u>	<u>0</u>
Total pledges	300,000	455,000
Less discounts to net present value (5% discount rate)	<u>23,750</u>	<u>44,496</u>
	<u>\$ 276,250</u>	<u>\$ 410,504</u>

Note 5 Investments

Investment income is detailed as follows:

	2017			Total
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
Dividends and interest, net	\$ 451,612	\$ 71,573	\$ 0	\$ 523,185
Net realized and unrealized gains on investments	<u>2,660,164</u>	<u>416,034</u>	<u>0</u>	<u>3,076,198</u>
Return on investments	<u>\$ 3,111,776</u>	<u>\$ 487,607</u>	<u>\$ 0</u>	<u>\$ 3,599,383</u>

	2016			Total
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
Dividends and interest, net	\$ 474,092	\$ 59,922	\$ 0	\$ 534,014
Net realized and unrealized gains on investments	<u>1,030,943</u>	<u>123,792</u>	<u>0</u>	<u>1,154,735</u>
Loss on investments	<u>\$ 1,505,035</u>	<u>\$ 183,714</u>	<u>\$ 0</u>	<u>\$ 1,688,749</u>

Investment fees were \$ 29,072 and \$ 29,289 for the years ended December 31, 2017 and 2016, respectively.

Note 6 Beneficial interest in perpetual trust

In 1937, a donor established a trust with a local bank naming the Museum as the residuary beneficiary in a perpetual trust. Under the terms of the agreement, the Museum became the beneficiary of the trust following the death of the donor and two other named beneficiaries.

The Museum is now the sole beneficiary of the trust, and each year it will receive the income from the trust assets in perpetuity. The Museum can use the distributed income in any way that is consistent with its mission.

Management estimates the fair value of its beneficial interest to approximate the fair value of the underlying assets of the trust. The fair value of the beneficial interest in perpetual trust was estimated at \$ 1,078,336 for the year ended December 31, 2017 (\$ 988,418 at 2016).

The Museum received \$ 27,185 from the trust in 2017, and \$ 26,112 in 2016. On an annual basis, the Museum revalues the beneficial interest in perpetual trust based on the fair value of the underlying assets of the trust. The change in value of the beneficial interest was \$ 89,918 in 2017 \$ 52,587 in 2016.

Note 7 Property and equipment

Following is a summary of property and equipment:

	2017	2016
Land and improvements	\$ 659,122	\$ 653,822
Building and improvements	34,830,167	34,811,478
Furniture and equipment	<u>1,473,806</u>	<u>1,543,224</u>
	36,963,095	37,008,524
Less: accumulated depreciation	<u>15,296,843</u>	<u>14,565,277</u>
	<u>\$ 21,666,252</u>	<u>\$ 22,443,247</u>

Depreciation expense was \$ 817,133 and \$ 824,638 for 2017 and 2016, respectively.

Note 8 Defined contribution plan

The Museum sponsors a defined contribution retirement plan for the benefit of the Museum's employees. All employees who work 20 hours or more, have attained the age of 21 and have one full year of service can participate in the plan. The Museum has the option to make a monthly contribution to each participant's account up to 5% of the participant's compensation. Contributions are made to a tax deferred plan under Internal Revenue Code 403(b). For the years ended December 31, 2017 and 2016, the Museum contributed 5% of eligible participant's compensation to the plan. Total contributions to the plan were \$ 99,896 and \$ 91,954 for the years ended December 31, 2017 and 2016, respectively

Note 9 Delaware Arts Stabilization Fund

The Delaware Arts Stabilization Fund ("DASF") is an agreement dated June 17, 1993, between the State of Delaware's Division of the Arts and eight of the primary arts organizations in Delaware (the cultural organizations) to join together, organize and conduct a campaign to secure the current and future financial needs related to the physical facilities of these cultural organizations. The Museum is one of the cultural organizations. The DASF raised over \$ 21,500,000 to meet these needs, of which \$ 5,000,000 came from the State of Delaware. The funds are administered and invested in the Delaware Community Foundation ("DCF"), a commingled investment fund for the benefit of the cultural organizations.

Note 9 Delaware Arts Stabilization Fund (cont'd)

The DASF funds are to be used for the following purposes:

- Capital reserves, to cover inherent cash flow shortfalls
- Physical plant, to cover capital related expenses
- Sustaining operations, to cover rent or other operating facilities costs.

The funds are distributed to the cultural organizations in accordance with the terms of the agreement. The DCF maintains separate subaccounts for each cultural organization for each of the purposes indicated above. During the year ended December 31, 2017, the Museum received \$ 6,361, \$ 101,217 and \$ 164,654 from capital reserves, physical plant and sustaining operations, respectively. During the year ended December 31, 2016, the Museum received \$ 11,709, \$ 107,229 and \$ 173,280 from capital reserves, physical plant and sustaining operations, respectively.

As of December 31, 2017 and 2016, DCF held the following subaccount balances designated for the Museum:

	2017	2016
Capital reserves	\$ 482,564	\$ 424,553
Physical plant	1,204,258	1,141,455
Sustaining operations	<u>1,967,419</u>	<u>1,864,147</u>
	<u>\$ 3,654,241</u>	<u>\$ 3,430,155</u>

The above assets are excluded from the financial statements since the DCF holds variance power over the use of such assets.

Note 10 Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
Education	\$ 257,027	\$ 184,196
Curatorial	706,096	360,487
Plant	30,694	79,063
Art acquisition	480,128	405,713
Operating	<u>461,925</u>	<u>264,843</u>
	<u>\$ 1,935,870</u>	<u>\$ 1,294,302</u>

NOTES TO FINANCIAL STATEMENTS
(cont'd)

DELAWARE ART MUSEUM, INC.

Note 11 Permanently restricted net assets

Permanently restricted net assets are restricted to investment in perpetuity. The income from these net assets is temporarily restricted until used for their intended purposes. Permanently restricted net assets consisted of the following at December 31:

	2017	2016
Operations	\$ 1,278,336	\$ 1,188,418
Curatorial	1,900,000	1,900,000
Art acquisition	15,000	15,000
Exhibitions	<u>491,585</u>	<u>491,585</u>
	<u>\$ 3,684,921</u>	<u>\$ 3,595,003</u>

Note 12 Net assets released from restrictions

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes as follows:

	2017	2016
Education	\$ 37,815	\$ 27,871
Curatorial	84,714	103,895
Plant	149,587	179,982
Art	6,899	44,454
Operating	<u>199,563</u>	<u>484,246</u>
	<u>\$ 478,578</u>	<u>\$ 840,448</u>

Note 13 Leases

The Museum leases various copiers and postage equipment under operating leases that expire through March 2021. The expense incurred under the leases for the years ended December 31, 2017 and 2016 was \$ 19,239 and \$ 18,817, respectively.

At December 31, 2017, future minimum rental payments required are as follows:

2018	\$ 12,115
2019	12,115
2020	12,115
2021	3,029
2022	<u>0</u>
Total minimum lease payments	<u>\$ 39,374</u>

Note 14 Major contributor

Of the \$ 2,279,495 in contributions received during the year ended December 31, 2017, 44%, or \$ 1,008,983, was received from three contributors. There were three major contributors in 2016.

Note 15 Commitments

In March 2017, the Museum entered into a 3 year service agreement with United Protection Service, LP, to provide security services to the Museum.

Estimated future payments under this agreement are as follows:

2018	\$ 222,296
2019	228,965
2020	<u>38,347</u>
	<u>\$ 489,608</u>

SUPPLEMENTARY INFORMATION

SCHEDULE OF OPERATING FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016**

DELAWARE ART MUSEUM, INC.

	Program and auxiliary services					Supporting services					Total 2016
	Curatorial	Education	Auxiliary Services	Fundraising	Special Events	Marketing and Communications	Administrative	Depreciation	Maintenance and Utilities	Total 2017	
Salaries	\$ 729,556	\$ 334,085	\$ 89,031	\$ 284,989	\$ 505	\$ 181,403	\$ 366,615	\$ -	\$ 177,764	\$ 2,163,948	\$ 1,991,365
Salary related	172,724	67,327	21,990	59,756	38	43,666	70,270	-	44,333	480,104	484,100
Contract services	230,000	11,765	45,336	204	2,193	-	31,767	-	-	321,265	337,793
Professional fees	6,045	7,641	-	2,263	-	40,045	80,161	-	11,310	147,465	102,287
Office expense	6,716	6,466	5,002	4,652	291	12,601	28,251	-	1,475	65,454	65,083
Postage and shipping	8,967	2,036	566	-	-	9,985	6,674	-	58	28,286	24,051
Exhibits	278,287	2,170	-	-	-	-	-	-	-	280,457	331,869
Conservation and collection care	93,811	-	-	-	-	-	-	-	-	93,811	97,401
Programs	-	126,722	-	-	-	-	-	-	-	126,722	82,526
Special events	-	-	-	-	49,788	-	-	-	-	49,788	64,172
Advertising and promotion	123,393	9,136	324	-	-	16,482	-	-	-	149,335	131,867
Printing	39,800	4,200	-	-	-	7,708	-	-	-	51,708	54,378
Insurance	41,600	-	-	-	-	-	114,797	-	-	156,397	148,775
Store cost of sales	16,402	-	70,037	-	-	-	-	-	-	70,037	60,728
Maintenance	-	-	-	-	-	50	-	-	271,975	288,427	229,775
Utilities	-	-	-	-	-	-	-	-	343,680	343,680	329,181
Other	14,376	21,319	1,320	43,559	-	3,311	30,129	-	48,723	162,737	161,447
Depreciation	-	-	-	-	-	-	-	817,133	-	817,133	824,638
Museum council	-	-	-	-	7,294	-	-	-	-	7,294	3,745
Subtotal	1,761,677	592,867	233,806	395,423	60,109	315,251	728,664	817,133	899,318	5,804,048	5,525,181
Allocation of expenses:											
Maintenance and utilities	515,314	130,933	168,196	19,095	-	-	65,780	-	(899,318)	-	-
Depreciation	468,221	118,968	152,825	17,350	-	-	59,769	(817,133)	-	-	-
Total	\$ 2,745,212	\$ 842,768	\$ 554,627	\$ 431,868	\$ 60,109	\$ 315,251	\$ 854,213	\$ 0	\$ 0	\$ 5,804,048	\$ 5,525,181