

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART
FOUNDATION, INC.

DOWNTOWN JACKSON PLAZA, INC.

JACKSON, MISSISSIPPI

COMBINED FINANCIAL REPORT

JUNE 30, 2017



Harper, Rains, Knight & Company

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART
FOUNDATION, INC.

DOWNTOWN JACKSON PLAZA, INC.

JACKSON, MISSISSIPPI

COMBINED FINANCIAL REPORT

JUNE 30, 2017

HARPER, RAINS, KNIGHT & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
RIDGELAND, MISSISSIPPI
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The Board of Trustees
Mississippi Museum of Art, Inc.
Jackson, Mississippi

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying combined financial statements of Mississippi Museum of Art, Inc., Mississippi Museum of Art Foundation, Inc., and Downtown Jackson Plaza, Inc. which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Mississippi Museum of Art, Inc., Mississippi Museum of Art Foundation, Inc., and Downtown Jackson Plaza, Inc.'s preparation and fair presentation of the combined 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 Mississippi Museum of Art, Inc., Mississippi Museum of Art Foundation, Inc., and Downtown Jackson Plaza, Inc.'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 combined financial statements.

Certified Public Accountants • Consultants • hrkcpa.com

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The Board of Trustees
Mississippi Museum of Art, Inc. - Continued

Auditors' Responsibility - continued

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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Mississippi Museum of Art, Inc., Mississippi Museum of Art Foundation, Inc., and Downtown Jackson Plaza, Inc. as of June 30, 2017 and 2016, and the results of their combined operations and their combined cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

HARPER, RAINS, KNIGHT + COMPANY, P.A.

March 13, 2018

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART FOUNDATION, INC.
DOWNTOWN JACKSON PLAZA, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

ASSETS		
	2017	2016
Current assets		
Cash	\$ 278,384	\$ 241,373
Receivables, net	190,432	83,502
Grant receivable	250,000	-
Inventories	49,220	243,339
Prepaid expenses	12,612	156,332
Total current assets	780,648	724,546
Property and equipment, less accumulated depreciation and amortization	2,343,821	3,798,443
Investments	5,776,725	5,355,917
Total assets	\$ 8,901,194	\$ 9,878,906
LIABILITIES AND NET ASSETS		
Current liabilities		
Lines of credit	\$ 309,200	\$ 299,916
Accounts payables and accrued expenses	392,138	431,718
Deferred compensation (vacation)	54,564	54,564
Note payable, current portion	6,070	-
Deferred revenue, current portion	568,265	955,115
Total current liabilities	1,330,237	1,741,313
Long-term liabilities		
Note payable, net of current portion	10,284	-
Deferred revenue	687,986	939,396
Total liabilities	2,028,507	2,680,709
Net assets		
Unrestricted net assets:		
Board designated - operating endowment	1,319,248	1,468,248
Board designated - operating reserve	250,000	300,000
Board designated - building reserve	250,000	200,000
Undesignated	1,850,822	2,306,010
Temporarily restricted net assets		
Building reserve	920,000	960,000
Other	431,632	257,068
Permanently restricted net assets	1,850,985	1,706,871
Total net assets	6,872,687	7,198,197
Total liabilities and net assets	\$ 8,901,194	\$ 9,878,906

The Notes to Financial Statements are an integral part of these combined statements.

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART FOUNDATION, INC.
DOWNTOWN JACKSON PLAZA, INC.

COMBINED STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted			2017
			Museum	Foundation	Total	Combined Total
Support and revenue						
Auxiliary activities revenue	\$ 573,257	\$ -	\$ -	\$ -	\$ -	\$ 573,257
Less cost of auxiliary activities	(307,266)	-	-	-	-	(307,266)
Net revenue from auxiliary activities	265,991	-	-	-	-	265,991
Public support - contributions	489,519	897,850	-	-	-	1,387,369
Governmental appropriations	1,010,733	962,515	-	-	-	1,973,248
Membership dues	304,830	-	-	-	-	304,830
Membership fees	65,664	-	-	-	-	65,664
Other income	235,515	-	-	-	-	235,515
Return on long-term investments	670,519	-	144,114	-	144,114	814,633
Transfers	-	-	(992,734)	992,734	-	-
Net assets released from restrictions	1,725,801	(1,725,801)	-	-	-	-
	<u>4,768,572</u>	<u>134,564</u>	<u>(848,620)</u>	<u>992,734</u>	<u>144,114</u>	<u>5,047,250</u>
Expenses						
Program						
Education	510,560	-	-	-	-	510,560
Exhibitions	3,143,613	-	-	-	-	3,143,613
Membership development	396,714	-	-	-	-	396,714
Fundraising	450,005	-	-	-	-	450,005
Management and general	788,485	-	-	-	-	788,485
	<u>5,289,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,289,377</u>
Change in net assets before changes related to collection	(520,805)	134,564	(848,620)	992,734	144,114	(242,127)
Change in net assets for collection items purchased but not capitalized	(83,383)	-	-	-	-	(83,383)
Change in net assets	(604,188)	134,564	(848,620)	992,734	144,114	(325,510)
Net assets, beginning, as reclassified	<u>4,274,258</u>	<u>1,217,068</u>	<u>1,783,964</u>	<u>(77,093)</u>	<u>1,706,871</u>	<u>7,198,197</u>
Net assets, ending	<u>\$ 3,670,070</u>	<u>\$ 1,351,632</u>	<u>\$ 935,344</u>	<u>\$ 915,641</u>	<u>\$ 1,850,985</u>	<u>\$ 6,872,687</u>

The Notes to Financial Statements are an integral part of this combined statement.

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART FOUNDATION, INC.
DOWNTOWN JACKSON PLAZA, INC.

COMBINED STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted			2016 Combined Total
			Museum	Foundation	Total	
Support and revenue						
Auxiliary activities revenue	\$ 807,531	\$ -	\$ -	\$ -	\$ -	\$ 807,531
Less cost of auxiliary activities	(260,537)	-	-	-	-	(260,537)
Net revenue from auxiliary activities	546,994	-	-	-	-	546,994
Public support - contributions	451,732	2,080,200	-	-	-	2,531,932
Governmental appropriations	1,038,545	-	-	-	-	1,038,545
Membership dues	285,718	-	-	-	-	285,718
Membership fees	96,508	-	-	-	-	96,508
Other income	763,142	1,921	-	-	-	765,063
Return on long-term investments	105,288	38	7,834	-	7,834	113,160
Transfers			607,000	(607,000)		-
Net assets released from restrictions	2,087,808	(2,087,808)	-	-	-	-
	<u>5,375,735</u>	<u>(5,649)</u>	<u>614,834</u>	<u>(607,000)</u>	<u>7,834</u>	<u>5,377,920</u>
Expenses						
Program						
Education	534,068	-	-	-	-	534,068
Exhibitions	3,281,923	-	-	-	-	3,281,923
Membership development	401,364	-	-	-	-	401,364
Fundraising	476,741	-	-	-	-	476,741
Management and general	842,082	-	-	-	-	842,082
	<u>5,536,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,536,178</u>
Change in net assets before changes related to collection	(160,443)	(5,649)	614,834	(607,000)	7,834	(158,258)
Change in net assets for collection items purchased but not capitalized	(48,545)	-	-	-	-	(48,545)
Change in net assets	(208,988)	(5,649)	614,834	(607,000)	7,834	(206,803)
Net assets, beginning	<u>4,483,246</u>	<u>1,222,717</u>	<u>1,169,130</u>	<u>529,907</u>	<u>1,699,037</u>	<u>7,405,000</u>
Net assets, ending, as reclassified	<u>\$ 4,274,258</u>	<u>\$ 1,217,068</u>	<u>\$ 1,783,964</u>	<u>\$ (77,093)</u>	<u>\$ 1,706,871</u>	<u>\$ 7,198,197</u>

The Notes to Financial Statements are an integral part of this combined statement.

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART FOUNDATION, INC.
DOWNTOWN JACKSON PLAZA, INC.

COMBINED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (325,510)	\$ (206,803)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,517,340	1,561,512
Gain on sale of investments	(37,991)	(4,936)
Unrealized (gain) loss on investments	(442,642)	7,692
Change in:		
Receivables	(356,930)	43,782
Inventories	194,119	(34,799)
Prepaid expenses	143,720	(102,406)
Accounts payable and accrued expenses	(39,580)	(96,666)
Deferred compensation	-	425
Deferred revenue	(638,260)	(1,153,915)
Net cash provided by operating activities	14,266	13,886
Cash flows from investing activities:		
Purchase of property and equipment	(62,718)	(612,741)
Purchase of investments	(1,262,558)	(353,392)
Proceeds from sale of investments	1,322,383	774,048
Net cash used in investing activities	(2,893)	(192,085)
Cash flows from financing activities:		
Proceeds from notes payable	413,755	250,000
Payments on notes payable	(388,117)	(257,696)
Net cash provided by (used in) financing activities	25,638	(7,696)
Net increase (decrease) in cash	37,011	(185,895)
Cash, beginning of year	241,373	427,268
Cash, end of year	\$ 278,384	\$ 241,373
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 13,292	\$ 20,061

The Notes to Financial Statements are an integral part of these combined statements.

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Mississippi Museum of Art, Inc. (the "Museum"), Mississippi Museum of Art Foundation, Inc., (the "Foundation") and Downtown Jackson Plaza, Inc., (the "Plaza") in preparing the accompanying combined financial statements are described below.

Organization

The Museum is a non-profit organization established under the laws of the State of Mississippi. The Museum provides education to foster the creative artistic talents of the people of the state and presents appropriate collections and exhibitions of the artistic work of Mississippians and others.

The Foundation was incorporated on July 1, 1987 to receive and hold gifts for endowment. The Museum and Foundation are exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code.

Downtown Jackson Plaza, Inc., (the "Plaza"), an affiliate of the Museum, was established to assist in the creation of a green space in the existing area adjacent to the Museum. The Plaza is under the direction of the Museum with the Museum Board of Trustees acting as the governing board and controlling all operations of the Plaza.

Basis of Presentation

The combined financial statements of the Museum are prepared on the accrual basis of accounting. The Museum reports its net assets in each of the following three classes: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. Net assets of the two restricted classes are created only by donor imposed restrictions on their use. All other net assets are reported as part of the unrestricted class.

Principles of Combination

These statements present the combined statements of financial position as well as the combined statements of activities and cash flows of the Museum, the Foundation and the Plaza. The financial statements are combined due to the nature of activities of the organizations. Material interfund transactions and accounts are eliminated.

Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Museum records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are required to be reported as support in the period the promise is made.

Receivables

Receivables are carried at original invoice amount, less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and by using historical experience applied to an aging of accounts. A receivable is considered to be past due if any portion of the balance is outstanding more than 90 days. Trade receivables are written off when deemed uncollectible.

Grant Revenue

The Museum recognizes grant revenues on the conditions of the grant agreement. Funds expended in advance of reimbursements from the grant are reported as grant fund receivables. Amounts received in advance of the period in which service is rendered are recorded as deferred revenue. Grant revenue, utilized to acquire long-term assets, is recognized over the estimated economic (useful) life of the related asset acquired.

Promises to Give

Unconditional promises to give are recorded as receivables in the year made and are recorded as revenue of the appropriate net asset category after discounting to the present value of the future cash flows.

Conditional promises to give are recorded as revenue when the contribution is received. See Note 6 for further information.

Credit Risk

Principal credit risk consists of cash and investments. At year-end and throughout the year, the Museum's, the Foundation's and the Plaza's cash balances were deposited in several banks. While some of the balances exceed insured limits during the fiscal year, management believes that credit risk is minimal due to the high credit quality of the financial institutions. Investments held in mutual funds are subject to normal market fluctuations.

Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost at the date of acquisition or fair value at the date of donation. Leasehold improvements are recorded at cost at date of acquisition. The Museum's policy is to capitalize assets greater than \$500. Amortization of leasehold improvements is recorded over the lesser of the life of the improvement or the remaining lease term at date of acquisition using the straight-line method. Depreciation is computed using the straight-line method over the following estimated useful lives.

Leasehold improvements	10 years
Furniture and equipment	3 to 10 years
Vehicles	10 years

Investments

The Museum records its marketable debt and equity securities at fair value. The Board appropriates as much of the net appreciation as is prudent considering the Museum's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

The Museum previously owned a 40 percent (40%) interest in a limited partnership (LP), which constructed and operates an apartment complex under the National Housing Act. The Museum sold their ownership in this investment on September 30, 2016. The Museum previously accounted for this investment using the equity method of accounting.

Art Collection

The Museum does not capitalize its collection; accordingly, contributed artwork is not recognized as revenue. The collection consists primarily of nineteenth and twentieth century American art. Works include paintings, sculptures, photographs, decorative and folk art. The Museum provides storage, protection and preservation of the collection in keeping with professionally accepted standards and its own acquisitions and collections policy. A periodic inventory is performed on the collection. The Museum had no deaccessions in 2017 and 2016.

Nature of Restrictions

Temporarily restricted net assets are grant funds restricted for the building reserves project and contributions restricted by donors for the purchase of artwork and contributions restricted for use in a particular year. Permanently restricted net assets consist of endowments held by the Museum and the Foundation.

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants

A portion of the Museum's and Plaza's operating funds are provided through grants from federal, state and local agencies that offer support to the nation's museums.

In-Kind Support

The Museum receives various types of in-kind support. The amounts are recorded at fair value as in-kind support and offset by like amounts included in expenses.

Rent

The City of Jackson provides space and utilities to the Museum for a nominal annual charge. The Museum recognizes a contribution for the estimated fair rental value of the space and utilities. Related rent and utilities expense and contributions revenue totaled \$188,010 in 2017 and 2016.

Contributed Services

The Museum recognizes contributed legal and accounting services as revenue and expense in the period contributed. The Museum had no such services in 2017 and 2016.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were \$267,735 in 2017 and \$279,672 in 2016.

Retirement Plan

The Museum has adopted a 403(b) retirement plan which allows employees who are eligible participants (i.e., employees who have completed one year of service and have become enrolled in the Plan), to contribute a certain percentage of their salary into the 403(b) feature of the Plan. Contributions to the 403(b) plan are on a voluntary basis.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis. Accordingly, certain costs are allocated among the programs and supporting services benefitted.

Income Taxes

The Museum is exempt from federal income taxes in accordance with Internal Revenue Service Code Section 501(c)(3).

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - continued

The Museum has not identified any uncertain tax positions related to the current year end and the Museum has no unrecognized tax benefits at June 30, 2017 and 2016 for which liabilities have been established. The Museum recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2014 and forward.

Subsequent Events

Subsequent events were evaluated by the Museum through March 13, 2018, which is the date the combined financial statements were available to be issued.

Reclassifications of Certain Financial Statement Items

In the prior year \$764,009 of permanently restricted contributions, which were received in prior years, were transferred from the Foundation to the Museum. While these funds remained permanently restricted they were included within transfers to unrestricted. This year's presentation has removed these transfers. A reclassification is shown within beginning net assets as reported within the Combined Statement of Activities with no effect on total beginning net assets as shown below.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Net assets, ending, as previously reported	\$5,038,267	\$1,217,068	\$ 942,862	\$7,198,197
Reclassification of transfers	<u>(764,009)</u>	<u>-</u>	<u>764,009</u>	<u>-</u>
Net assets ending ,as reclassified	<u>\$4,274,258</u>	<u>\$1,217,068</u>	<u>\$1,706,871</u>	<u>\$7,198,197</u>

Certain other items on the financial statements for fiscal year 2016 have been reclassified, with no effect on net assets or change in net assets, to be consistent with the classifications adopted for fiscal year 2017.

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 2 • INVESTMENTS

The following schedule summarizes the investment return and its classification in the combined statements of activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Dividends and interest	\$ 127,668	\$ -	\$ -	\$ 127,668	\$ 115,916
Net realized and unrealized gain (loss)	542,851	-	-	542,851	(10,590)
Realized gain on sale of limited partnership	<u>-</u>	<u>-</u>	<u>144,114</u>	<u>144,114</u>	<u>7,834</u>
Return on long-term investments	<u>\$ 670,519</u>	<u>\$ -</u>	<u>\$ 144,114</u>	<u>\$ 814,633</u>	<u>\$ 113,160</u>

Investments consist of the following:

	2017	2016
Equity security mutual funds	\$4,052,807	\$3,546,492
Debt security mutual funds	1,723,918	1,603,539
40 percent real estate limited partnership interest	<u>-</u>	<u>205,886</u>
	<u>\$5,776,725</u>	<u>\$5,355,917</u>

Accounting Standards Codification Topic 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 measurement). The three levels of the fair value hierarchy are described as follows:

- Level 1 - Quoted prices in active markets that are accessible at the measure date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 - Observable inputs other than quoted prices in active markets.
- Level 3 - Unobservable inputs for which there is little or no market data available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 2 • INVESTMENTS (Continued)

The unobservable inputs in Level 3 can only be used to measure fair value to the extent that observable inputs in Level 1 and Level 2 are not available. The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2017.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$5,776,725</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,776,725</u>
Total investments at fair value	<u>\$5,776,725</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,776,725</u>

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of June 30, 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$5,150,031</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,150,031</u>
Limited partnership	<u>-</u>	<u>-</u>	<u>205,886</u>	<u>205,886</u>
Total investments at fair value	<u>\$5,150,031</u>	<u>\$ -</u>	<u>\$ 205,886</u>	<u>\$5,355,917</u>

NOTE 3 • PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	<u>\$14,054,691</u>	<u>\$14,041,416</u>
Furniture and equipment	<u>2,024,704</u>	<u>2,004,016</u>
Vehicles	<u>47,239</u>	<u>18,484</u>
	<u>16,126,634</u>	<u>16,063,916</u>
Less: accumulated depreciation and amortization	<u>(13,782,813)</u>	<u>(12,265,473)</u>
	<u>\$ 2,343,821</u>	<u>\$ 3,798,443</u>

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 4 • LINES OF CREDIT

The Museum has an operating line of credit in the amount of \$200,000 with interest at 5.25 percent which matures April 4, 2018 and a catering renovation line of credit in the amount of \$250,000 with interest at 3.75 percent which matures September 15, 2018. The Museum and the Plaza had a \$1 million revolving line of credit with interest at 4.50 percent which matured May 21, 2017. Interest is due and payable quarterly. The aggregate outstanding balance on the revolving line of credit and the operating line of credit is \$309,200 and \$299,916, respectively, at June 30, 2017 and 2016. As of June 30, 2017 and 2016, the unused lines of credit totaled \$140,800 and \$1,150,084, respectively. Borrowings are collateralized by all current and future pledge receivables, assignment of the lease agreement between the Museum and the City of Jackson and mutual fund investments.

Interest expense was \$14,043 and \$20,061 for the years ended June 30, 2017 and 2016, respectively.

NOTE 5 • NOTE PAYABLE

Details of long-term debt at June 30, 2017 and 2016 are as follows:

	2017	2016
Note payable to financing company, interest at 5.29 percent, monthly payments of \$566 maturing January 2020, secured by vehicle	\$ 16,354	\$ -
Less current maturities	6,070	-
	\$ 10,284	\$ -

NOTE 6 • NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions for the years ended June 30, 2017 and 2016, consist of the following:

	2017	2016
Mississippi Arts Pavillion improvements and exhibits	\$ 1,642,418	\$ 2,039,263
Satisfaction of artwork acquisition restrictions	83,383	48,545
	\$ 1,725,801	\$ 2,087,808

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 7 • CONDITIONAL PROMISES TO GIVE

The Museum had approximately \$28,420 and \$50,420 in conditional promises to give associated with the Museum's Art Garden campaign at June 30, 2017 and 2016, respectively. Pledged amounts are to be used to satisfy construction related costs of the Plaza and Mississippi Arts Pavilion.

NOTE 8 • BOARD DESIGNATED UNRESTRICTED NET ASSETS

During the year ended June 30, 2010, the Board of Trustees designated the remaining capital campaign contributions received to be transferred to the Foundation for an operating endowment.

During March 2012, the Board of Trustees designated an operating reserve fund to help ensure the long-term financial stability of the Museum and position it to respond to varying economic conditions and changes affecting the Museum's financial position. The Board of Trustees re-designated to the Fund, \$300,000 that had been previously designated by the Board, to the operating endowment maintained by the Foundation.

During March 2012, the Board of Trustees designated a building reserve fund to help ensure the long-term financial stability of the MMA and to position it to respond to the needs of the Museum and the Art Garden without interruption to its daily operations and liquidity. The Museum previously commissioned a systems replacement plan to determine facility needs for 20 years. The report indicated a need of \$2.2 million for replacements over the next 20 years. The business plan developed will maintain adequate funds for those replacements minus the amount committed to the Museum by the City of Jackson in its lease. The Foundation has committed to an annual contribution of \$50,000 for 16 years beginning in fiscal year 2013 provided that the Foundation votes to make a disbursement to the Museum towards funding of the building reserve.

The board designated unrestricted net assets balance consists of the following as of June 30, 2017 and 2016:

	2017	2016
Beginning balance	\$ 1,968,248	\$ 1,968,248
Operating endowment fund transfer	<u>(149,000)</u>	<u>-</u>
	<u>\$ 1,819,248</u>	<u>\$ 1,968,248</u>

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 9 • TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2017 and 2016, temporarily restricted net assets, which have been restricted by donors, are available for the following purposes:

	2017	2016
Building reserve	\$ 920,000	\$ 960,000
Other programs	431,632	257,068
	<u>\$ 1,351,632</u>	<u>\$ 1,217,068</u>

NOTE 10 • COMMITMENTS

The Museum entered into a lease agreement with the City of Jackson, Mississippi, effective July 1, 2005, to occupy the Mississippi Arts Center. The lease term was ten years from the date of actual occupancy, which was June 1, 2007. The lease included renewal options for two consecutive five year periods. The lease agreement required the Museum to pay costs for insurance and repairs. In addition, the lease agreement required the Museum to invest a minimum of \$2,000,000 in permanent improvements to the leased premises that will remain the property of the City of Jackson upon expiration of this lease.

Total minimum payments of \$80,000, payable in the amount of \$10,000 per year, were required under the operating lease agreement; however, the annual payments were waived since the Museum made permanent improvements in excess of that required by the lease agreement; thus, the Museum was exempt from annual rental payments under the lease agreement.

Effective August 1, 2010, the Museum amended its lease agreement with the City of Jackson, Mississippi to incorporate the construction and maintenance of the Art Garden, and to extend the term of the lease. The lease includes renewal options for two consecutive five year periods following the expiration of the initial ten year term. Rental expense under the operating agreement is \$10 per year during the initial term commencing August 1, 2010 and any renewal terms. The lease agreement requires the Museum to pay costs for insurance and repair to the interior and exterior of the building, the Green Space and the Art Garden. In addition, the lease agreement requires the Museum to invest a minimum of \$2,500,000 in permanent improvements to the leased premises for the Art Garden that will remain the property of the City of Jackson upon expiration of this lease. As of June 30, 2017, the Museum has made permanent improvements of \$4,600,000 for the Art Garden.

NOTE 11 • ENDOWMENT FUNDS

During June 30, 2017 and 2016, the Museum has donor-restricted and board designated endowments totaling \$3,197,898 and \$3,209,573 respectively, each of which are held within Museum investment accounts. Each of these endowments has purpose restrictions. Following is a description of each endowment and their respective restrictions:

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 11 • ENDOWMENT FUNDS (Continued)

Hederman Memorial and Bequest Endowment Fund - Established July 2006, the earnings from this endowment may be used for the purpose of purchasing additional paintings and art works for the Museum and to pay or defray the costs of sponsoring special events and special exhibits at the Museum. This fund is held and managed by the MS Museum of Art Foundation, Inc.

The Joshua Green Endowment Trust Fund- Established in December 2006, this endowment principal is to remain intact and the earnings from this endowment may be used to acquire exhibitions of paintings in all media which shall be open to women of Mississippi and the Southern states which shall attract the finest artists and shall be known as the “Myra Hamilton Green and Lynn Green Root Exhibition”. Thirty percent (30%) of the annual income of the fund may be used to acquire additional paintings in any media by Myra Hamilton Green and/or Lynn Green Root as part of the permanent collection of the Museum; provided, however, that if such paintings are not reasonably available, the same may be used to acquire paintings in any media by other women artists of Mississippi and the Southern States. All income of the fund not used each year shall be added to the principal. This fund is held and managed by the MS Museum of Art Foundation, Inc.

The Rex T. Brown Endowment Fund - Established in October 2007, this endowment principal is to remain intact and the earnings from this endowment may be used to acquire artworks in media, exclusive of work by emerging artist, particularly in Mississippi and American artists of the 19th and 20th centuries. This fund is held and managed by the MS Museum of Art Foundation, Inc.

State Endowment Fund - Established in July 2007, this fund’s principal and the earnings are to be used for the acquisition of land, planning and design and site preparation for the facility located in Jackson, Mississippi, and the enhancement of buildings or facilities for the Museum. This fund is held and managed by the MS Museum of Art Foundation, Inc.

Board Designated Operating Endowment - The Board of Trustees have designated funds to help ensure the long-term financial stability of the Museum and position it to respond to varying economic conditions and changes affecting the Museum's financial position. Refer to Note 7 for a description of the operating endowment fund. These funds are held and managed by the MS Museum of Art Foundation, Inc.

Other Endowment Funds - The Museum has received various other donor-restricted contributions within the endowment fund. The principal of the contributions is to remain intact and the earnings be used for the purpose of purchasing additional paintings and art works for the Museum and to pay or defray the costs of sponsoring special events and special exhibits at the Museum. These funds are held and managed by the MS Museum of Art Foundation, Inc.

MISSISSIPPI MUSEUM OF ART, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

NOTE 11 • ENDOWMENT FUNDS (Continued)

A summary of the changes in endowment net assets follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	<u>\$ 1,518,248</u>	<u>\$ 39,073</u>	<u>\$ 1,699,037</u>	<u>\$ 3,256,358</u>
Investment return:				
Investment income	29,802	693	34,653	65,148
Net appreciation (depreciation)				
unrealized and realized	<u>15,392</u>	<u>358</u>	<u>25,732</u>	<u>41,482</u>
Total investment return	<u>45,194</u>	<u>1,051</u>	<u>60,385</u>	<u>106,630</u>
Contributions	-	-	-	-
Amounts appropriated for expenditures	<u>(95,194)</u>	<u>(5,670)</u>	<u>(52,551)</u>	<u>(153,415)</u>
	<u>(95,194)</u>	<u>(5,670)</u>	<u>(52,551)</u>	<u>(153,415)</u>
Endowment net assets, June 30, 2016	<u>1,468,248</u>	<u>34,454</u>	<u>1,706,871</u>	<u>3,209,573</u>
Investment return:				
Investment income	25,583	984	180,521	207,088
Net appreciation (depreciation)				
unrealized and realized	<u>100,653</u>	<u>3,871</u>	<u>143,237</u>	<u>247,761</u>
Total investment return	<u>126,236</u>	<u>4,855</u>	<u>323,758</u>	<u>454,849</u>
Contributions	-	-	-	-
Amounts appropriated for expenditures	<u>(275,236)</u>	<u>(11,644)</u>	<u>(179,644)</u>	<u>(466,524)</u>

From time to time, the fair value of assets associated with donor-restricted endowment funds could fall below the level that the donor requires the Museum to retain as the corpus of the endowment funds. These deficiencies could result from unfavorable market fluctuations. There were no material deficiencies as of December 31, 2017. Funds are invested to maintain the highest possible return within the objective of long-term growth and limiting risk.

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART FOUNDATION, INC.
DOWNTOWN JACKSON PLAZA, INC.

COMBINING STATEMENT OF FINANCIAL POSITION
Year Ended June 30, 2017

ASSETS

	<u>Museum</u>	<u>Foundation</u>	<u>Plaza</u>	<u>Eliminations</u>	2017 Combined Total
Current assets					
Cash	\$ 278,379	\$ -	\$ 5	\$ -	\$ 278,384
Receivables, net	190,432	-	-	-	190,432
Grant receivable	250,000	-	-	-	250,000
Inventories	49,220	-	-	-	49,220
Prepaid expenses	12,612	-	-	-	12,612
Interfund receivable	<u>1,181,542</u>	-	-	<u>(1,181,542)</u>	-
Total current assets	1,962,185	-	5	(1,181,542)	780,648
Property and equipment, less accumulated depreciation/ amortization	2,034,273	-	309,548	-	2,343,821
Investments	<u>-</u>	<u>5,776,725</u>	<u>-</u>	<u>-</u>	<u>5,776,725</u>
Total assets	<u>\$3,996,458</u>	<u>\$ 5,776,725</u>	<u>\$ 309,553</u>	<u>\$(1,181,542)</u>	<u>\$ 8,901,194</u>

LIABILITIES AND NET ASSETS

Current liabilities					
Lines of credit	\$ 309,200	\$ -	\$ -	\$ -	\$ 309,200
Accounts payable and accrued expenses	-	-	-	-	-
	392,138	-	-	-	392,138
Deferred compensation (vacation)	54,564	-	-	-	54,564
Note payable, current portion	6,070	-	-	-	6,070
Deferred revenue, current portion	473,265	-	95,000	-	568,265
Interfund payable	<u>-</u>	<u>1,181,542</u>	<u>-</u>	<u>(1,181,542)</u>	<u>-</u>
Total current liabilities	1,235,237	1,181,542	95,000	(1,181,542)	1,330,237
Long-term liabilities					
Note payable, net of current portion	10,284	-	-	-	10,284
Deferred revenue	<u>436,986</u>	<u>-</u>	<u>251,000</u>	<u>-</u>	<u>687,986</u>
Total liabilities	<u>1,682,507</u>	<u>1,181,542</u>	<u>346,000</u>	<u>(1,181,542)</u>	<u>2,028,507</u>
Net assets					
Unrestricted net assets:					
Board designated	-	1,819,248	-	-	1,819,248
Undesignated	946,975	940,294	(36,447)	-	1,850,822
Temporarily restricted net assets	431,632	920,000	-	-	1,351,632
Permanently restricted net assets	<u>935,344</u>	<u>915,641</u>	<u>-</u>	<u>-</u>	<u>1,850,985</u>
Total net assets	<u>2,313,951</u>	<u>4,595,183</u>	<u>(36,447)</u>	<u>-</u>	<u>6,872,687</u>
Total liabilities and net assets	<u>\$3,996,458</u>	<u>\$ 5,776,725</u>	<u>\$ 309,553</u>	<u>\$(1,181,542)</u>	<u>\$ 8,901,194</u>

See Independent Auditors' Report.

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART FOUNDATION, INC.
DOWNTOWN JACKSON PLAZA, INC.

COMBINED SCHEDULES OF EXPENSES

Year Ended June 30, 2017

(With Summarized Financial Information for the Year Ended June 30, 2016)

	Program Services		Membership Development	Fundraising	Management and General	2017	2016
	Education	Exhibitions				Total All Funds	Total All Funds
Advertising	\$ 7,426	\$ 227,014	\$ 18,548	\$ 8,958	\$ 5,789	\$ 267,735	\$ 279,672
Conservation	-	3,140	-	-	-	3,140	207
Depreciation	151,734	1,046,965	75,867	121,387	121,387	1,517,340	1,561,512
Dues and subscriptions	228	4,517	2,542	289	19,462	27,038	26,149
Insurance, general	6,098	42,074	3,049	4,878	4,878	60,977	46,384
Interest and other finance charges	-	41,602	-	-	-	41,602	55,029
Material, supplies and equipment	14,257	51,089	11,881	13,069	28,515	118,811	105,091
Miscellaneous	21,739	77,900	18,116	19,928	43,479	181,162	198,592
Postage	-	-	-	-	-	-	2,013
Printing	119	19,208	2,760	899	4,955	27,941	40,897
Professional contracts and fees	17,129	312,085	33,854	-	23,501	386,569	374,511
Receptions	-	135,063	-	17,669	-	152,732	158,477
Rent	17,027	117,483	8,513	13,621	13,621	170,265	124,570
Repairs and maintenance	2,067	14,265	1,034	1,654	1,654	20,674	36,326
Salaries, payroll taxes and insurance	239,795	859,266	199,829	219,812	479,590	1,998,292	2,204,701
Shipping	-	6,942	-	-	-	6,942	22,637
Telephone	2,101	7,529	1,751	1,926	4,202	17,509	3,892
Travel and entertainment	10,650	38,163	8,875	9,763	21,300	88,751	83,470
Utilities	20,190	139,308	10,095	16,152	16,152	201,897	212,048
	<u>\$ 510,560</u>	<u>\$ 3,143,613</u>	<u>\$ 396,714</u>	<u>\$ 450,005</u>	<u>\$ 788,485</u>	<u>\$ 5,289,377</u>	<u>\$ 5,536,178</u>

See Independent Auditors' Report.

MISSISSIPPI MUSEUM OF ART, INC.
MISSISSIPPI MUSEUM OF ART FOUNDATION, INC.
DOWNTOWN JACKSON PLAZA, INC.

SCHEDULE OF TEMPORARILY RESTRICTED CONTRIBUTIONS
Year Ended June 30, 2017

Support and revenue	
Public support - contributions	
Art garden	
Sources:	
Corporate	\$ 22,000
Individual	<u>16</u>
Total art garden contributions	<u>22,016</u>
Exhibitions	
Sources:	
Corporate	232,850
Foundations	<u>634,650</u>
Total exhibition contributions	<u>867,500</u>
Acquisitions	<u>8,334</u>
Total public support - contributions	<u>\$ 897,850</u>
Governmental appropriations	
Exhibitions	
Sources:	
State of Mississippi grant	<u>\$ 962,515</u>
Total governmental appropriations	<u>\$ 962,515</u>

See Independent Auditors' Report.