

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Jorge M. Perez Art Museum of Miami-Dade County, Inc.

Report on the Financial Statements

We have audited the accompanying statements of financial position of the Jorge M. Perez Art Museum of Miami-Dade County, Inc. (the “Museum”) as of September 30, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ 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 the Jorge M. Perez Art Museum of Miami-Dade County, Inc. as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 30-31 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, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Marcum LLP

Miami, FL
March 9, 2016

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,762,567	\$ 5,809,494
Grants receivable	1,054,800	24,984
Contributions receivable, net	3,473,019	3,387,723
Other receivables	291,364	298,434
Inventory	373,281	278,869
Prepaid expenses	<u>394,055</u>	<u>1,148,715</u>
Total Current Assets	8,349,086	10,948,219
Long-Term Portion of Contributions Receivable, Net	13,539,702	16,272,442
Investments	14,122,143	14,987,323
Beneficial Interest in Charitable Remainder Annuity Trust	4,202,931	4,647,457
Collections (see Note 1)	--	--
Property and Equipment, Net	126,094,127	129,423,741
Other Assets	<u>26,099</u>	<u>86,099</u>
Total	<u>\$ 166,334,088</u>	<u>\$ 176,365,281</u>

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

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,220,914	\$ 2,800,762
Deferred revenue	499,641	549,217
Loan payable	<u>1,950,000</u>	<u>2,000,000</u>
Total Current Liabilities	<u>3,670,555</u>	<u>5,349,979</u>
Long-Term Liabilities		
Loan payable, net of current portion	11,580,000	13,530,000
Fair value of derivative - interest rate swap	<u>486,707</u>	<u>263,564</u>
Total Long-Term Liabilities	<u>12,066,707</u>	<u>13,793,564</u>
Total Liabilities	<u>15,737,262</u>	<u>19,143,543</u>
Commitments		
Net Assets		
Unrestricted:		
For current operations	123,600,980	128,680,368
Funds functioning as endowment	348,287	362,782
Temporarily restricted	14,072,559	15,603,588
Permanently restricted	<u>12,575,000</u>	<u>12,575,000</u>
Total Net Assets	<u>150,596,826</u>	<u>157,221,738</u>
Total	<u>\$ 166,334,088</u>	<u>\$ 176,365,281</u>

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

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Private contributions	\$ 2,531,025	\$ 1,713,745	\$ --	\$ 4,244,770
Government grants	3,928,962	--	--	3,928,962
Donated goods and services - at fair value	631,252	--	--	631,252
Special events revenue	\$ 1,446,664			
Less: costs of direct benefit to donors	<u>(552,542)</u>	<u>--</u>	<u>--</u>	<u>894,122</u>
Total Support	<u>7,985,361</u>	<u>1,713,745</u>	<u>--</u>	<u>9,699,106</u>
Revenue				
Membership	672,845	--	--	672,845
Admissions	1,433,591	--	--	1,433,591
Store sales	1,062,503	--	--	1,062,503
Facility rentals	1,734,604	--	--	1,734,604
Parking	477,492	--	--	477,492
Restaurant royalty	333,680	--	--	333,680
Investment income	31,216	660,143	--	691,359
Other	<u>132,441</u>	<u>--</u>	<u>--</u>	<u>132,441</u>
Total Revenue	<u>5,878,372</u>	<u>660,143</u>	<u>--</u>	<u>6,538,515</u>
Net Assets Released from Restrictions - Expiration and Fulfillment of Restrictions	<u>2,491,923</u>	<u>(2,491,923)</u>	<u>--</u>	<u>--</u>
Total Support and Revenue and Net Assets Released from Restriction	<u>16,355,656</u>	<u>(118,035)</u>	<u>--</u>	<u>16,237,621</u>
Expenses				
Program services:				
Exhibitions	8,092,379	--	--	8,092,379
Education	2,266,833	--	--	2,266,833
Total program services	<u>10,359,212</u>	<u>--</u>	<u>--</u>	<u>10,359,212</u>
Supporting activities:				
Development	1,578,076	--	--	1,578,076
Communications	1,419,671	--	--	1,419,671
Store	1,118,305	--	--	1,118,305
Membership support	513,594	--	--	513,594
General and administrative	1,219,432	--	--	1,219,432
Building and grounds	2,391,348	--	--	2,391,348
Facility rentals	680,043	--	--	680,043
Director's office	29,499	--	--	29,499
Capital campaign	1,862,232	--	--	1,862,232
Total supporting activities	<u>10,812,200</u>	<u>--</u>	<u>--</u>	<u>10,812,200</u>
Total Expenses	<u>21,171,412</u>	<u>--</u>	<u>--</u>	<u>21,171,412</u>
Change in Net Assets from Operations Before Other Gains (Losses) and Collection Items	<u>(4,815,756)</u>	<u>(118,035)</u>	<u>--</u>	<u>(4,933,791)</u>
Other Gains (Losses)				
Litigation settlement	1,035,729	--	--	1,035,729
Change in beneficial interest in charitable remainder annuity trust	--	(444,526)	--	(444,526)
Change in fair value of derivative - interest rate swap	(223,143)	--	--	(223,143)
Unrealized gains (losses) on investments	<u>(18,991)</u>	<u>(968,468)</u>	<u>--</u>	<u>(987,459)</u>
Total Other Gains (Losses)	793,595	(1,412,994)	--	(619,399)
Collection Items Purchased - But not Capitalized	<u>(1,071,722)</u>	<u>--</u>	<u>--</u>	<u>(1,071,722)</u>
Change in Net Assets	<u>(5,093,883)</u>	<u>(1,531,029)</u>	<u>--</u>	<u>(6,624,912)</u>
Net Assets - Beginning of Year	<u>129,043,150</u>	<u>15,603,588</u>	<u>12,575,000</u>	<u>157,221,738</u>
Net Assets - End of Year	<u>\$ 123,949,267</u>	<u>\$ 14,072,559</u>	<u>\$ 12,575,000</u>	<u>\$ 150,596,826</u>

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

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Private contributions	\$ 3,425,688	\$ 7,823,473	\$ 750,000	\$ 11,999,161
Government grants	2,692,958	--	--	2,692,958
Donated goods and services - at fair value	105,512	--	--	105,512
Special events revenue	\$ 2,302,037			
Less: costs of direct benefit to donors	<u>(1,246,068)</u>	--	--	<u>1,055,969</u>
Total Support	<u>7,280,127</u>	<u>7,823,473</u>	<u>750,000</u>	<u>15,853,600</u>
Revenue				
Membership	739,795	--	--	739,795
Admissions	947,789	--	--	947,789
Store sales	801,652	--	--	801,652
Facility Rentals	774,036	--	--	774,036
Parking	334,843	--	--	334,843
Restaurant royalty	195,883	--	--	195,883
Investment income	2,311	903,713	--	906,024
Other	<u>102,722</u>	--	--	<u>102,722</u>
Total Revenue	<u>3,899,031</u>	<u>903,713</u>	<u>--</u>	<u>4,802,744</u>
Net Assets Released from Restrictions - Expiration and Fulfillment of Restrictions	<u>25,551,211</u>	<u>(25,551,211)</u>	<u>--</u>	<u>--</u>
Total Support and Revenue and Net Assets Released from Restriction	<u>36,730,369</u>	<u>(16,824,025)</u>	<u>750,000</u>	<u>20,656,344</u>
Expenses				
Program services:				
Exhibitions	6,872,453	--	--	6,872,453
Education	<u>2,026,055</u>	--	--	<u>2,026,055</u>
Total program services	<u>8,898,508</u>	--	--	<u>8,898,508</u>
Supporting Activities:				
Development	974,497	--	--	974,497
Communications	999,839	--	--	999,839
Store	925,927	--	--	925,927
Membership support	256,681	--	--	256,681
General and administrative	847,144	--	--	847,144
Building and grounds	2,123,919	--	--	2,123,919
Facility Rentals	428,852	--	--	428,852
Capital campaign	<u>3,321,238</u>	--	--	<u>3,321,238</u>
Total supporting activities	<u>9,878,097</u>	--	--	<u>9,878,097</u>
Total Expenses	<u>18,776,605</u>	<u>--</u>	<u>--</u>	<u>18,776,605</u>
Change in Net Assets from Operations Before Other Gains (Losses) and Collection Items	<u>17,953,764</u>	<u>(16,824,025)</u>	<u>750,000</u>	<u>1,879,739</u>
Other Gains (Losses)				
Change in beneficial interest in charitable remainder annuity trust	--	239,691	--	239,691
Change in fair value of derivative - interest rate swap	(263,564)	--	--	(263,564)
Unrealized gains (losses) on investments	<u>(54,381)</u>	<u>58,167</u>	--	<u>3,786</u>
Total Other Gains (Losses)	<u>(317,945)</u>	<u>297,858</u>	<u>--</u>	<u>(20,087)</u>
Collection Items Purchased - But not Capitalized	<u>(666,559)</u>	--	--	<u>(666,559)</u>
Change in Net Assets	<u>16,969,260</u>	<u>(16,526,167)</u>	<u>750,000</u>	<u>1,193,093</u>
Net Assets - Beginning of year	<u>112,073,890</u>	<u>32,129,755</u>	<u>11,825,000</u>	<u>156,028,645</u>
Net Assets - End of Year	<u>\$ 129,043,150</u>	<u>\$ 15,603,588</u>	<u>\$ 12,575,000</u>	<u>\$ 157,221,738</u>

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

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ (6,624,912)	\$ 1,193,093
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,412,603	2,855,417
Contribution receivable discount	(826,193)	(12,431)
Net realized and unrealized (gains) losses on investments	580,683	(582,792)
Change in beneficial interest in charitable remainder annuity trust	444,526	(239,691)
Change in fair value of derivative - interest rate swap	223,143	263,564
Contributions restricted for financial and physical capital	(1,713,745)	(7,823,473)
Changes in assets and liabilities:		
Contributions receivable	1,425,065	1,140,477
Grants receivable	(1,029,816)	(19,150)
Other receivables	7,070	(232,578)
Inventory	(94,412)	(184,498)
Prepaid expenses	754,660	(830,824)
Other assets	60,000	(60,000)
Accounts payable and accrued expenses	(1,579,848)	(1,504,681)
Deferred revenue	(49,576)	(173,283)
Net Cash Used in Operating Activities	<u>(5,010,752)</u>	<u>(6,210,850)</u>
Cash Flows from Investment Activities		
Acquisition of property and equipment	(82,989)	(20,405,052)
Construction in progress	--	(6,341,215)
Purchases of investments	(4,403,046)	(6,713,765)
Proceeds from sales and maturities of investments	<u>4,687,543</u>	<u>6,171,088</u>
Net Cash Provided by (Used in) Investing Activities	<u>201,508</u>	<u>(27,288,944)</u>
Cash Flows from Financing Activities		
Contributions restricted for financial and physical capital	3,762,317	6,133,144
Proceeds from loan payable	--	16,280,000
Payments on loan payable	(2,000,000)	(750,000)
Grants restricted for physical capital	<u>--</u>	<u>7,858,071</u>
Net Cash Provided by Financing Activities	<u>1,762,317</u>	<u>29,521,215</u>

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

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Decrease in Cash and Cash Equivalents	\$ (3,046,927)	\$ (3,978,579)
Cash and Cash Equivalents		
Beginning of year	<u>5,809,494</u>	<u>9,788,073</u>
End of year	<u>\$ 2,762,567</u>	<u>\$ 5,809,494</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 486,594	\$ 453,073
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Property and equipment purchased but not paid	\$ --	\$ 523,080
Transfer of construction in progress to property and equipment	\$ --	\$ 111,334,868

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

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MUSEUM

The Jorge M. Perez Art Museum of Miami-Dade County, Inc., f/k/a Miami Art Museum of Dade County Association, Inc. (the "Museum") is a not-for-profit, tax-exempt corporation. The Museum exhibits, collects, preserves, and interprets international art with a focus on the art of the Western Hemisphere from the World War II era to the present. The Museum operates the Museum, presents educational and community programs, and publishes newsletters, catalogues, and other interpretive material. The Museum officially opened the new facility in Museum Park, formerly known as Bicentennial Park, in December 2013 (see discussion at Note 14).

The Museum was originally established in 1980 to generate support from the public for the Center for the Fine Arts, an agency of Miami-Dade County. Effective October 1, 1996, the Center was renamed the Miami Art Museum of Dade County Association, Inc. and was concurrently transformed from an exhibition hall for temporary exhibits to an institution with a permanent collection operated by the Museum.

The City of Miami owns the land on which the Museum operates. In addition, under no obligation to do so, operations of the Museum have been partially sustained through funding from Miami-Dade County. The County provided a general operating subsidy to the Museum of approximately \$2,664,000 for each of the fiscal years ended September 30, 2015 and 2014, respectively, which is included within Government Grants in the accompanying statements of activities and changes in net assets.

BASIS OF PRESENTATION AND ACCOUNTING

The financial statements are prepared using the accrual basis of accounting. Revenues, expenses, gains, and losses are classified into three categories based on the existence or absence of donor-imposed restrictions. The three net asset categories as reflected in the accompanying financial statements are as follows:

Unrestricted – Net assets that are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION AND ACCOUNTING (CONTINUED)

Temporarily Restricted – Net assets whose use by the Museum is limited by donor-imposed restrictions that either expire by the passage of time or that can be fulfilled or otherwise removed by actions of the Museum pursuant to those stipulations.

Permanently Restricted – Net assets subject to donor-imposed restrictions that are required to be maintained permanently (i.e., in perpetuity) by the Museum. Generally, the donors of those assets permit the Museum to use all or part of the income earned on related investments for specific purposes.

REVENUE RECOGNITION

Contributions

Contributions, including unconditional promises to give, are recognized as revenues when received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met. Promises of noncash assets are recorded at their estimated fair value when received.

Contributions are considered to be available for general operations of the Museum unless specifically restricted by the donor. The Museum 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. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

The Museum records unconditional promises to give at fair value when received and subsequently at net realizable value which is based on prior years' collection experience and management's analysis of specific promises made. The Museum determines an allowance for doubtful accounts based upon management's judgment about such factors as prior collection history, type of contribution, and nature of fundraising activity. Decreases in net realizable value are recognized as provision for uncollectable promises in the period the decrease occurs. Increases in net realizable value are not recognized unless they represent recoveries of previous provision for uncollectable promises incurred. Increases in net realizable value also results from accretion of the discount over time.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Government Grant Revenue

The Museum receives grants and other annual subsidies from state and county funding. Revenue from reimbursement grants is recognized as the related costs are incurred under the grant or contract agreement. Advances received are recorded as refundable advances until the related funds have been spent. The Museum considers other grants received to be unconditional promises to give which are recorded at fair value at the date the Museum was notified of receipt of the grant.

Other Revenue

The Museum receives additional revenue from memberships, admissions, store sales, and facility rentals. Membership revenue is recorded over the term of the membership. Admissions and store sales are recorded as revenue at the time of sale. Facility rental revenue is recorded at the time of the event. Any monies received in advance of the event are recorded as deferred revenue.

CONTRIBUTED SERVICES AND FACILITIES

Contributed services are recognized as contributions at their fair value if the service requires specialized skills, the service is provided by individuals or corporations who possess those skills, and the service would typically need to be purchased. Contributed facilities are reported at their estimated fair value and recognized as revenue when received and expense as used. These contributions include services performed at significantly discounted prices and the use of office facilities.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 the revenues and expenses during the reporting period. The primary estimates used in the preparation of these financial statements include the collectability of receivables, the useful lives of tangible assets, the allocation of natural expenses among functional categories, and fair value measurements. Actual results could differ from those estimates.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash in checking and money market mutual fund accounts, with original maturities of three months or less when purchased. Cash and cash equivalents managed by the Museum's investment managers as part of its long-term investment strategy are included in investments.

INVENTORY

Inventory primarily consists of merchandise held for sale and is stated at the lower of cost (determined on the first-in, first-out basis) or market.

PREPAID EXPENSES

Prepaid expenses relate primarily to exchange based events that are scheduled for future time periods. As the events occur, the costs are included as expense in the statement of activities and changes in net assets.

DEFERRED REVENUE

Revenues received in advance of future scheduled events are deferred and not recognized until the events occur.

INVESTMENTS AND INVESTMENT INCOME

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value (see note below) in the statement of financial position. Investment gains and losses (including realized and unrealized gains and losses on investments as well as interest income and dividends) are included in the statement of activities as an increase or decrease in unrestricted net assets unless the gains or losses are restricted by donor or law. Restricted gains and losses and investment income where the restrictions are met in the same reporting period as the income is recognized are recorded as unrestricted support.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value, and requires financial statement preparers to disclose information about their fair value determinations in their financial statements. See Note 13 for a discussion of fair value measurements.

DERIVATIVE INSTRUMENTS

The Museum accounts for derivative instruments in accordance with FASB ASC Topic 815-10-05-4, “*Accounting for Derivative Instruments and Hedging Activities*,” as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. In accordance with FASB ASC Topic 815-10-05-4, derivative instruments are recognized as assets or liabilities in the balance sheet and are measured at fair value. The Museum recognizes all changes in fair value through earnings unless the derivative is determined to be an effective hedge. See Note 7 for a discussion of the derivative instrument.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Museum to concentrations of credit risk consist principally of cash and cash equivalents, investments, grants receivable and contributions receivable.

Cash and Cash Equivalents

The Museum maintains cash balances in accounts at various financial institutions. The Federal Deposit Insurance Corporation (“FDIC”) insures depositors up to \$250,000. At September 30, 2015 and at certain times during the year, the Museum had amounts on deposit that were in excess of the federally insured limits. Cash is maintained at high quality financial institutions, which the Museum believes limits credit risk.

Investments

The Museum has investment accounts at financial institutions and broker/dealers, which are not insured by the FDIC. These funds may be subject to insurance by the Securities Investor Protection Corporation (“SIPC”). Management believes that the risk of loss with respect to the financial institutions and broker/dealers has been limited by choosing strong institutions with which to do business.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS OF CREDIT RISK (CONTINUED)

Grants Receivable

Grants receivable consist principally of amounts due from grantor agencies pursuant to the terms of the respective grant agreements. Grants receivables are stated at net realizable value. Allowances are provided for amounts estimated to be uncollectible based on historical experience and any specific collection issues that the Museum has identified. It is the Museum's policy to charge uncollectible receivables against the allowance when management determines that the related balance will not be collected. Management determined that an allowance for doubtful accounts was not necessary at September 30, 2015 and 2014.

Contributions Receivable

Concentrations of credit risk with respect to contributions receivable are generally limited due to the large number of contributors comprising the Museums' contributor base and their dispersion across different industries. However, as of September 30, 2015 and 2014, \$15,400,000 and \$17,200,000 respectively, is included in the receivable balance from four contributors.

COLLECTIONS

Works of art, historical treasures, or similar assets that are (a) held for public exhibition, education, or research in furtherance of public service rather than financial gain; (b) protected, kept unencumbered, cared for, and preserved; and (c) subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections, which were acquired through purchases and contributions since the Museum revised its mission in October 1996, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as decreases in temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. As of September 30, 2015 and 2014, the Museum's collection consists of 1,490 and 1,403 works of art, respectively.

PROPERTY AND EQUIPMENT

The Museum follows the practice of capitalizing all assets with costs in excess of \$1,000 for property and equipment, except for donated furnishings, which are recorded at their estimated fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Costs of repairs and maintenance are expensed in the period incurred. Renewals and betterments are capitalized.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Museum is a non-profit corporation as defined by Section 501(c)(3) of the U.S. Internal Revenue Code and as such is subject to state and federal income taxes only on unrelated business taxable income. There were no income taxes resulting from unrelated business income during the years ended September 30, 2015 and 2014.

The Museum follows the provisions of FASB ASC Topic 740-10 and related subsections for the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in the Museum's tax returns. As a result of implementing this guidance, management has determined that the Museum does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures.

Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Museum's tax returns will not be challenged by the taxing authorities and that the Museum will not be subject to additional tax, penalties, and interest as a result of such challenge. If the Museum were to incur an income tax liability in the future, interest would be reported as interest expense and penalties would be reported as income taxes. Generally, the Museum's tax returns remain open for federal income tax examination for three years from the date of filing.

FUNCTIONAL EXPENSES

The Museum allocates its expenses on a functional basis to its program services and supporting activities. Expenses are charged directly to functions based on a combination of specific identification and allocation by management. Costs have been allocated among program, development, and administration based on estimated time, space utilization, or other reasonable and consistent means.

ADVERTISING COSTS

The Museum expenses all advertising costs as incurred. Total advertising costs were approximately \$410,000 and \$212,000 for the years ended September 30, 2015 and 2014, respectively.

RECLASSIFICATIONS

Certain of the 2014 amounts have been reclassified to conform to the 2015 presentation.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 2 – INVESTMENTS

The following is a summary of the fair value of long term investments held at September 30, 2015 and 2014:

	2015	2014
Money market funds	\$ 1,985,315	\$ 1,867,245
Equity securities funds	6,060,599	6,922,498
Fixed income funds	4,022,990	3,947,935
Real estate funds	122,807	132,734
Commodities funds	--	126,375
Alternative assets	<u>1,930,432</u>	<u>1,990,536</u>
Total	<u>\$ 14,122,143</u>	<u>\$ 14,987,323</u>

The Museum's investment income (loss) - net for the years ended September 30, 2015 and 2014, is comprised of the following:

	2015	2014
Interest and dividends	\$ 284,583	\$ 327,018
Changes in unrealized gains (loss) - net	(987,459)	3,786
Realized gains (losses) on disposition	<u>406,776</u>	<u>579,006</u>
Total	<u>\$ (296,100)</u>	<u>\$ 909,810</u>

NOTE 3 – CONTRIBUTIONS RECEIVABLE

The Museum has entered into certain agreements to receive cash contributions. Such contributions are recorded at fair value, which is determined based on the value of the estimated future cash flows. In 2015 and 2014, the Museum received multiyear promises, which have been discounted using a market interest rate between .017% and 1.68% for the year ended September 30, 2015 and between .34% and 2.63% for the year ended September 30, 2014. Outstanding contributions receivable as of September 30, 2015 and 2014 are as follows:

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 3 – CONTRIBUTIONS RECEIVABLE (CONTINUED)

	<u>2015</u>	<u>2014</u>
Total contributions receivable	\$ 20,010,886	\$ 23,484,523
Less: discounts	(2,009,726)	(2,651,057)
Allowance for doubtful accounts	<u>(988,439)</u>	<u>(1,173,301)</u>
Net contributions receivable	17,012,721	19,660,165
Less: current portion	<u>(3,473,019)</u>	<u>(3,387,723)</u>
Long-Term Portion of Contributions Receivable	<u>\$ 13,539,702</u>	<u>\$ 16,272,442</u>

As of September 30, 2015 and 2014 contributions receivable are due as follows:

	<u>2015</u>	<u>2014</u>
In less than one year	\$ 3,639,866	\$ 3,565,050
In more than one year, but less than five years	4,273,520	7,534,473
In more than five years	<u>12,097,500</u>	<u>12,385,000</u>
Total	<u>\$ 20,010,886</u>	<u>\$ 23,484,523</u>

NOTE 4 – BENEFICIAL INTEREST IN CHARITABLE REMAINDER ANNUITY TRUST

The Museum received an interest in a Charitable Remainder Annuity Trust (the “Trust”) from an anonymous donor. The terms of the Trust include an initial funding of \$7,000,000 made by the donor and annual payments of 5% (or \$350,000) of the original funding amount made by the Trust to the donor for remainder of her life. When the donor passes away, the Museum will receive the remainder of the Trust. This contribution has been recorded at fair value, which is determined based on the present value of the estimated future cash flow discounted using a market interest rate of 4.5% for the year ended September 30, 2015. Changes in the beneficial interest of the trust for the year ended September 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Beneficial Interest in Trust at Beginning of Year, Net	\$ 4,647,457	\$ 4,407,766
Change in Beneficial Interest of Trust	<u>(444,526)</u>	<u>239,691</u>
Beneficial Interest in Trust at End of Year, Net	<u>\$ 4,202,931</u>	<u>\$ 4,647,457</u>

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2015 and 2014 consist of the following:

	2015	2014	Useful Lives
Building	\$ 123,195,356	\$ 123,187,545	50 years
Land improvements	5,689,326	5,689,326	20 years
Furniture, fixtures, and equipment	3,544,022	3,468,844	5 years
	<u>132,428,704</u>	<u>132,345,715</u>	
Less: accumulated depreciation	<u>(6,334,577)</u>	<u>(2,921,974)</u>	
Net	<u>\$ 126,094,127</u>	<u>\$ 129,423,741</u>	

Depreciation expense was approximately \$3,413,000 and \$2,855,000 for the years ended September 30, 2015 and 2014, respectively.

NOTE 6 – DEFERRED REVENUE

Deferred revenue as of September 30, 2015 and 2014 consists of the following:

	2015	2014
PAMM Ball	\$ 80,000	\$ 137,000
Facility rentals and other	<u>419,641</u>	<u>412,217</u>
Total	<u>\$ 499,641</u>	<u>\$ 549,217</u>

NOTE 7 – DEBT

LINE OF CREDIT

The Museum has a line-of-credit agreement with a financial institution with an available balance of \$300,000 subject to the terms of the agreement. Amounts outstanding under this agreement bear interest at the prime rate, minus 0.50% (2.75% as of September 30, 2015 and 2014). As of September 30, 2015 and 2014, the Museum had no balance outstanding on the line-of-credit. The line of credit is due on demand and any loan granted under this agreement is secured by the unrestricted funds functioning as an endowment fund.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 7 – DEBT (CONTINUED)

LOAN PAYABLE

The Museum has a loan agreement with a financial institution which provides for maximum borrowings of \$16,500,000. The loan calls for monthly interest only payments commencing July 1, 2013 and continuing on the first day of each month thereafter until conversion to a term loan. On January 31, 2014 (the “Conversion Date”), the outstanding principal balance of the loan of \$16,280,000 was converted to a fully-amortizing term loan, with quarterly payments of principal in the amounts set forth in the agreement, due and payable in thirty-one installments beginning on May 1, 2014, and continuing on each August 1st, November 1st, February 1st, and May 1st thereafter. At September 30, 2015 and 2014, the loan had an outstanding balance of \$13,530,000 and \$15,530,000, respectively.

The loan bears interest at a floating rate of interest equal to LIBOR plus 2.75% (3.60% at September 30, 2015). The entire principal balance, together with all accrued and unpaid interest and all other charges, advances and fees are due and payable in full on January 31, 2022. Future minimum payments under the agreement are approximately \$1,950,000, \$850,000, \$750,000, \$700,000, \$700,000 for the years ended September 30, 2016, 2017, 2018, 2019, 2020 and approximately \$8,580,000 thereafter, respectively. The loan is secured by all promises to give in excess of \$100,000. The loan requires compliance with a debt service coverage ratio as defined in the agreement.

In addition, the Museum has a swap contract for a notional amount of \$5,000,000 with the financial institution that is designed to hedge the risk of changes in interest payments under the loan caused by changes in LIBOR. The swap contract requires the Museum to pay interest at a fixed rate of 2.96% plus 275 basis points on a portion of the principal outstanding on the loan and requires the financial institution to pay interest at a floating rate of interest equal to LIBOR on a portion of the principal outstanding on the loan. The swap matures on January 31, 2022. At September 30, 2015 and 2014, the estimated fair value of the interest rate swap agreement was approximately \$487,000 and \$264,000, respectively, and is reflected as a liability in the accompanying statements of financial position with changes in the fair value reflected in the accompanying statements of activities and changes in net assets.

NOTE 8 – NET ASSET RESTRICTIONS

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent net assets that have been contributed by donors with either time or purpose restrictions. Included in temporarily restricted assets are funds of approximately \$14,073,000 and \$15,604,000 as of September 30, 2015 and 2014, respectively, which have such donor-imposed restrictions and consist of net assets to be used for the new facility, for education programs, or the purchase of art.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 8 – NET ASSET RESTRICTIONS (CONTINUED)

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$12,575,000 consist primarily of the Knight Schools Education Programs Endowment (“Knight Education Endowment”) and the State of Florida Cultural Endowment (“Florida Cultural Endowment”).

The Knight Education Endowment was provided to help create a vibrant museum culture in Miami by endowing the education programs at the new Museum. In December 2007, \$10 million was promised to be paid over five years with the final payment made during fiscal year 2012.

For the State of Florida Cultural Endowment, the Museum is required to keep an endowment fund balance of \$1,800,000. The Museum may expend the investment proceeds of the endowment only for operating costs incurred while engaged in programs directly related to cultural activities. The Trust Agreement imposes operating and financial reporting requirements on the Museum. The grant will revert to the State of Florida if the Museum ceases to operate, is no longer a qualified sponsoring Museum, files for bankruptcy, expends a portion of the endowment principal, or willfully violates provisions of the Trust Agreement.

NOTE 9 – CONTINGENCIES

The Museum is subject to legal proceedings related to its normal course of business. The Museum is not currently a party to any pending litigation, which, if decided adversely against the Museum, would have a material adverse effect on the financial condition, results of operations, or cash flows of the Museum.

NOTE 10 — OPERATING LEASES

On April 6, 2009, the Museum entered into a lease agreement with the City of Miami for the land on which it operates. This lease is for a term of approximately thirty years. The term shall be automatically renewed for two consecutive periods of thirty years each and one additional consecutive period of nine years. The lease calls for annual payments of \$2 per lease year. No fair rental value has been assigned due to the unique nature of the property and the restrictions placed on the use of the land.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 11 – RELATED PARTY TRANSACTIONS

The Museum received no significant contributions from members of the Board of Trustees and their affiliates during the year ended September 30, 2015. The Museum received contributions of approximately \$1,126,000 from members of the Board of Trustees and their affiliates during the year ended September 30, 2014. As of September 30, 2015 and 2014, amounts due from members of the Board of Trustees and their affiliates, included in contributions receivable on the accompanying statement of financial position, totaled approximately \$8,386,000 and \$9,016,000, respectively.

NOTE 12 – ENDOWMENTS

The Museum's endowment consists of funds established for a variety of purposes and includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

As of September 30, 2015, endowment net assets consisted of the following:

	<u>Endowment Net Asset Composition by Net Asset Type</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ --	\$ 1,079,609	\$ 12,575,000	\$ 13,654,609
Board-designated endowment	348,288	--	--	348,288
Total Endowment Funds	<u>\$ 348,288</u>	<u>\$ 1,079,609</u>	<u>\$ 12,575,000</u>	<u>\$ 14,002,897</u>

Changes in endowment net assets for the fiscal year ended September 30, 2015 are as follows:

	<u>Endowment Net Asset Composition by Net Asset Type</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 362,782	\$ 2,737,455	\$ 12,575,000	\$ 15,675,237
Contributions	--	--	--	--
Investment return - investment income	7,925	257,557	--	265,482
Investment return - realized and unrealized losses	(14,498)	(565,912)	--	(580,410)
Amounts appropriated for expenditure	<u>(7,921)</u>	<u>(1,349,491)</u>	<u>--</u>	<u>(1,357,412)</u>
Endowment Net Assets - End of Year	<u>\$ 348,288</u>	<u>\$ 1,079,609</u>	<u>\$ 12,575,000</u>	<u>\$ 14,002,897</u>

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 12 – ENDOWMENTS (CONTINUED)

As of September 30, 2014, endowment net assets consisted of the following:

	Endowment Net Asset Composition by Net Asset Type			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ --	\$2,737,455	\$12,575,000	\$ 15,312,455
Board-designated endowment	<u>362,782</u>	<u> --</u>	<u> --</u>	<u>362,782</u>
Total Endowment Funds	<u>\$ 362,782</u>	<u>\$2,737,455</u>	<u>\$12,575,000</u>	<u>\$ 15,675,237</u>

Changes in endowment net assets for the fiscal year ended September 30, 2014 are as follows:

	Endowment Net Asset Composition by Net Asset Type			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 357,886	\$1,574,434	\$11,825,000	\$13,757,320
Contributions	--	--	750,000	750,000
Investment return - investment income	9,226	302,205	--	311,431
Investment return - realized and unrealized gains	3,992	860,816	--	864,808
Amounts appropriated for expenditure	<u>(8,322)</u>	<u> --</u>	<u> --</u>	<u>(8,322)</u>
Endowment Net Assets - End of Year	<u>\$ 362,782</u>	<u>\$2,737,455</u>	<u>\$12,575,000</u>	<u>\$15,675,237</u>

INTERPRETATION OF RELEVANT LAW

During 2011, the State of Florida enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Museum interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation was added to the fund.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 12 – ENDOWMENTS (CONTINUED)

INTERPRETATION OF RELEVANT LAW (CONTINUED)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets and maintained as such for appropriation for expenditure by the Museum in a manner consistent with the standards of prudence prescribed by UPMIFA and the donors' restrictions on use.

The Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Museum and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Museum.
7. The investment policies of the Museum.

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Museum policies require to retain as a fund of perpetual duration. If this were to occur, the Museum would not expend any monies from the fund until the fair value of the fund returns to a level above the principal. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no endowment funds with deficiencies as of September 30, 2015 and 2014.

INVESTMENT RETURN OBJECTIVES AND RISK PARAMETERS

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. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is in accordance with the investment policy.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 12 – ENDOWMENTS (CONTINUED)

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

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 designed to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

Beginning in fiscal year 2014, the Museum began appropriating for distribution each year up to 4.25% of the total Knight Education endowment value, as measured by the preceding year's ending value. The distributed amount may be increased by the affirmative vote of a majority of the members of the Finance and Executive Committees.

In establishing this policy, the Museum considered the long-term expected return on its endowment which is measured against one or more benchmarks approved by the Investment Committee. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to grow at an amount greater than a composite, weighted benchmark, similarly approved. This is consistent with the Museums' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 13 - FAIR VALUE MEASUREMENTS

The Museum utilizes fair value measurements to record certain assets and to determine fair value disclosures. In accordance with FASB ASC Topic 820, "*Fair Value Measurements*," fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 13 - FAIR VALUE MEASUREMENTS (CONTINUED)

FASB ASC Topic 820 establishes a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Museum has the ability to access.

Level 2 – Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used to measure fair value. There have been no changes in the methodologies used at September 30, 2015 and 2014.

Cash and cash equivalents and money market accounts: The carrying amount is fair value.

Mutual funds: Carried at fair values as determined by quoted market prices.

Hedge funds: the Museum accounts for Level 3 investments in accordance with Accounting Standards Update (“ASU”) 2009-12, *Guidance for Measuring Fair Value of Certain Alternative Investments*, which permits entities, as a practical expedient, to use net asset value (“NAV”) per share for measuring the fair value of certain alternative investments that do not have a readily determined fair value, such as quoted market price. If observable prices are not available for investments, ASC 820 provides a market approach valuation technique that may be use as viable option for measuring fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities, such as a business.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 13 - FAIR VALUE MEASUREMENTS (CONTINUED)

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis in the statement of financial position:

	For the Year Ended September 30, 2015			
	Fair Value Measurement Using:			
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents:				
U.S. Government Money Market Fund	\$ 1,985,315	\$ --	\$ --	\$ 1,985,315
Equity securities funds:				
Emerging Markets Region	430,470	--	--	430,470
International Region	322,948	--	--	322,948
United States	2,427,828	--	--	2,427,828
Exchange-Traded Funds	160,322	--	--	160,322
US Large Cap Equity	1,399,629	--	--	1,399,629
US Mid Cap Equity	296,990	--	--	296,990
US Small Cap Equity	57,897	--	--	57,897
EAFE Equity	407,967	--	--	407,967
European Large Cap Equity	208,392	--	--	208,392
Japanese Large Cap Equity	101,903	--	--	101,903
Asia ex-Japan Equity	246,253	--	--	246,253
Total equity securities funds	<u>6,060,599</u>	<u>--</u>	<u>--</u>	<u>6,060,599</u>
Fixed income funds:				
Corporate Bonds	2,025,334	--	--	2,025,334
Emerging Markets Region	653	--	--	653
International Region	244,653	--	--	244,653
Exchange-Traded Funds	198,551	--	--	198,551
Bond Funds	1,553,799	--	--	1,553,799
Total fixed income funds	<u>4,022,990</u>	<u>--</u>	<u>--</u>	<u>4,022,990</u>
Real estate funds:				
Global Region	122,807	--	--	122,807
Total real estate funds:	<u>122,807</u>	<u>--</u>	<u>--</u>	<u>122,807</u>
Alternative Investments				
Hedge Funds	--	--	1,511,458	1,511,458
Real Estate & Infrastructure	290,528	--	--	290,528
Private Investment	--	--	100,342	100,342
Hard Assets	28,104	--	--	28,104
Total alternative investments	<u>318,632</u>	<u>--</u>	<u>1,611,800</u>	<u>1,930,432</u>
Total Investments	<u>\$ 12,510,343</u>	<u>\$ --</u>	<u>\$ 1,611,800</u>	<u>\$ 14,122,143</u>
Derivative - Interest Rate Swap	<u>\$ --</u>	<u>\$ 486,707</u>	<u>\$ --</u>	<u>\$ 486,707</u>

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 13 - FAIR VALUE MEASUREMENTS (CONTINUED)

	For the Year Ended September 30, 2014			
	Fair Value Measurement Using:			
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents:				
U.S. Government Money Market Fund	\$ 1,867,245	\$ --	\$ --	\$ 1,867,245
Equity securities funds:				
Emerging Markets Region	542,551	--	--	542,551
International Region	864,068	--	--	864,068
United States	2,599,960	--	--	2,599,960
Exchange-Traded Funds	124,494	--	--	124,494
US Large Cap Equity	1,354,927	--	--	1,354,927
US Mid Cap Equity	297,273	--	--	297,273
EAFE Equity	687,653	--	--	687,653
European Large Cap Equity	--	90,624	--	90,624
Japanese Large Cap Equity	70,054	--	--	70,054
Asia ex-Japan Equity	290,894	--	--	290,894
Total equity securities funds	<u>6,831,874</u>	<u>90,624</u>	<u>--</u>	<u>6,922,498</u>
Fixed income funds:				
Corporate Bonds	1,661,394	--	--	1,661,394
Emerging Markets Region	2,463	--	--	2,463
International Region	150,758	--	--	150,758
Government Agencies	--	100,445	--	100,445
Government Bonds	--	227,377	--	227,377
Exchange-Traded Funds	227,851	--	--	227,851
Bond Funds	1,577,647	--	--	1,577,647
Total fixed income funds	<u>3,620,113</u>	<u>327,822</u>	<u>--</u>	<u>3,947,935</u>
Real estate funds:				
Global Region	132,734	--	--	132,734
Total Real estate funds:	<u>132,734</u>	<u>--</u>	<u>--</u>	<u>132,734</u>
Commodities funds:				
Linked Funds	126,375	--	--	126,375
Exchange-Traded Funds	--	--	--	--
Total commodities funds	<u>126,375</u>	<u>--</u>	<u>--</u>	<u>126,375</u>
Alternative Investments				
Hedge Funds	--	--	1,532,424	1,532,424
Real Estate & Infrastructure	272,853	--	--	272,853
Private Investments	--	--	30,855	30,855
Hard Assets	99,030	55,374	--	154,404
Total alternative investments	<u>371,883</u>	<u>55,374</u>	<u>1,563,279</u>	<u>1,990,536</u>
Total Investments	<u>\$ 12,950,224</u>	<u>\$ 473,820</u>	<u>\$ 1,563,279</u>	<u>\$ 14,987,323</u>
Derivative - Interest Rate Swap	<u>\$ --</u>	<u>\$ 263,564</u>	<u>\$ --</u>	<u>\$ 263,564</u>

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 13 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the year ended September 30, 2015:

	Alternative Investments
Level 3 investments as of October 1, 2014	\$ 1,563,279
Transfer in	220,500
Unrealized gain (loss)	<u>(171,979)</u>
Level 3 Investments as of September 30, 2015	<u>\$ 1,611,800</u>

NOTE 14— NEW FACILITY

In 2004, by ordinance 05-47, the Miami-Dade County Board of County Commissioners approved the issuance of approximately \$2.926 billion in general obligation bonds (GOB) to finance countywide municipal and neighborhood capital projects over 15 years. The Building Better Communities Bond Program (“BBC Program”) funds these projects which include the development, improvement, rehabilitation, restoration or acquisition of real property.

In connection with this program, the Museum agreed to design, construct, manage, use, maintain and own, the sublease improvements of a new 120,000 sq ft art museum, under-building parking, loading docks, visitor drop offs, access roads, internal site roadways, and outdoor features (“Museum Park Project”). The Museum agreed to present exhibitions, expand its art collections and offer education programs for the benefit, enjoyment and education of the public.

Subject to the County’s ability to issue bonds, and the successful negotiation, approval and execution of all necessary agreements, the County provided \$100 million from BBC Program proceeds to the Museum for the Museum Park Project. The Museum agreed to raise approximately \$120 million in matching funds to complete the project. As of September 30, 2015, the Museum has matched approximately \$105 million.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 14– NEW FACILITY (CONTINUED)

On April 6, 2009, the Museum entered into a lease agreement with the City of Miami for land and improvements located in Bicentennial Park (Note 10).

On July 9, 2009, the Museum entered into a Development Agreement with the City of Miami which outlined the development, planning and restrictions imposed on the construction of the Museum Park Project.

In August 2010, the Museum entered into a contract with a builder for the construction of the new facility. The original contract price was approximately \$82,062,000.

In April 2008, March 2009, January 2010, October 2010, June 2011, March 2012 and January 2013 the Miami-Dade County Board of County Commissioners issued grants for \$235,000, \$8,400,000, \$4,000,000, \$6,892,000, \$29,412,000, \$25,000,000, and \$26,061,000, respectively (all issued grants total \$100 million provided for in original agreement), from the BBC Program, to fund the purchasing, building, renovating, and/or equipping facilities for the project associated with the development of the Museum Park Project. Payments under these agreements were made on a reimbursement basis in accordance with the BBC GOB Program Administrative Rules.

Construction on the project began in November 2010 and was completed in December 2013. Costs incurred related to this construction contract were capitalized as construction in progress and transferred to fixed assets during the year ended September 30, 2014.

At September 30, 2014, the Museum had collected all of the \$100,000,000 from the County GOB grants.

NOTE 15 – SUBSEQUENT EVENTS

The Museum has evaluated all subsequent events through March 9, 2016, which is the date these financial statements were available to be issued.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Services		Supporting Activities										Total
	Exhibitions	Education	Development	Communications	Store	Membership Support	General	Building	Facility Rental	Director's Office	Capital Campaign		
							and Administrative	and Grounds					
Expenses													
Salaries and related payroll taxes	\$ 1,206,645	\$ 848,051	\$ 728,895	\$ 603,116	\$ 310,762	\$ 191,282	\$ 382,292	\$ 126,379	\$ 161,183	\$ 242	\$ 600,000	\$ 5,158,847	
Advertising and promotion	196,965	5,203	4,460	196,965	--	6,426	--	--	--	--	--	410,019	
Exhibition fees and installation	522,285	6,318	76	--	152	--	304	874	--	--	8,041	538,050	
Freight, shipping and handling	1,089,182	--	--	--	3,276	--	--	--	--	--	--	1,092,458	
Insurance	469,665	76,160	20,369	2,847	34,476	2,278	55,283	151,283	2,000	--	14,679	829,040	
Printed materials	106,225	26,824	55,105	58,271	375	25,956	2,648	2,155	2,339	--	3,376	283,274	
Travel and entertainment	329,175	71,388	31,135	1,759	6,810	756	2,701	540	1,269	--	22,278	467,811	
Refreshments and catering	29,103	67,148	167,104	1,284	502	23,059	7,914	1,251	9,193	--	5,037	311,595	
Cost of art store sales	--	--	--	16,787	520,044	--	--	--	--	--	--	536,831	
Supplies, postage and mailing	37,495	62,969	5,582	17,919	8,104	22,077	4,126	15,351	2,104	--	--	175,727	
Professional fees	303,764	81,295	78,634	257,946	16,916	126,836	229,554	84,808	91,986	15,000	406,988	1,693,727	
Security	723,909	23,818	16,988	--	41	4,913	83	571,859	117,895	--	--	1,459,506	
Facility and maintenance	474,465	102,689	20,570	220	35,397	1,475	70,794	205,590	30,557	--	--	941,757	
Artistic services	124,997	207,350	5,290	31,275	5	2,903	10	29	16,405	--	--	388,264	
Parking and valet	--	42	4,808	--	--	2,434	--	179,703	67,368	--	--	254,355	
Depreciation	1,774,554	375,386	68,252	--	136,504	--	273,008	784,899	--	--	--	3,412,603	
Equipment rental	38,869	105,447	4,415	14,397	3,641	2,845	3,082	8,860	167,740	--	56,899	406,195	
Rent, utilities and related expenses	501,786	83,127	15,114	--	30,228	--	60,456	173,813	3,600	--	--	868,124	
Interest, credit cards and bank fees	75,800	69,679	2,915	--	5,831	--	11,662	52,972	--	--	487,412	706,271	
Technology	64,058	43,355	16,960	13,100	4,584	--	106,110	28,887	5,741	--	24,888	307,683	
Other expenses	23,437	10,584	331,404	203,785	657	100,354	9,405	2,095	663	14,257	232,634	929,275	
Total 2015 Expenses	\$ 8,092,379	\$ 2,266,833	\$ 1,578,076	\$ 1,419,671	\$ 1,118,305	\$ 513,594	\$ 1,219,432	\$ 2,391,348	\$ 680,043	\$ 29,499	\$ 1,862,232	\$ 21,171,412	

See independent auditors' report.

JORGE M. PEREZ ART MUSEUM OF MIAMI-DADE COUNTY, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Program Services		Supporting Activities								Total
	Exhibitions	Education	Development	Communications	Store	Membership Support	General and Administrative	Building and Grounds	Facility Rental	Capital Campaign	
Expenses											
Salaries and related payroll taxes	\$ 1,343,759	\$ 747,208	\$ 430,731	\$ 437,641	\$ 264,619	\$ 98,002	\$ 282,030	\$ 120,037	\$ 116,235	\$ 1,241,390	\$ 5,081,652
Advertising and promotion	--	--	3,240	208,625	--	--	--	--	--	--	211,865
Exhibition fees	429,809	--	--	--	--	--	--	--	--	--	429,809
Freight, shipping and handling	725,786	--	--	--	26,080	--	--	--	--	79,850	831,716
Insurance	323,542	62,524	13,019	1,064	24,440	532	44,093	123,345	2,040	--	594,599
Printed materials	169,853	20,562	21,839	151,829	2,309	52,941	5,008	13,275	8,192	64,097	509,905
Travel and entertainment	210,700	71,048	25,585	961	5,153	1,202	5,310	1,125	352	32,022	353,458
Refreshments and catering	11,558	9,940	21,490	957	406	--	4,224	858	--	1,689	51,122
Cost of art store sales	1,950	--	--	--	387,187	--	--	--	--	--	389,137
Supplies, postage and mailing	165,295	72,815	4,075	16,365	7,470	14,942	9,129	25,559	445	33,106	349,201
Professional fees	362,778	92,653	168,749	150,884	7,248	58,227	32,060	91,463	61,138	986,922	2,012,122
Security	526,652	16,127	6,498	--	--	--	--	643,637	57,844	--	1,250,758
Facility and maintenance	260,998	72,599	15,997	208	20,199	1,534	40,138	115,396	21,271	--	548,340
Artistic services	91,486	194,945	25,109	--	--	2,600	--	--	1,650	--	315,790
Parking and valet	--	22,184	8,292	--	--	1,185	--	81,107	26,229	--	138,997
Depreciation	1,484,817	314,096	57,108	--	114,217	--	228,433	656,746	--	--	2,855,417
Equipment rental	145,700	67,613	30,448	2,876	3,676	2,249	4,422	21,990	122,763	33,367	435,104
Rent, utilities and related expenses	438,310	136,867	27,342	3,138	44,464	3,138	68,645	152,309	--	--	874,213
Interest expense	--	--	--	--	--	--	--	--	--	453,073	453,073
Other expenses	179,460	124,874	114,975	25,291	18,459	20,129	123,652	77,072	10,693	395,722	1,090,327
Total 2014 Expenses	\$ 6,872,453	\$ 2,026,055	\$ 974,497	\$ 999,839	\$ 925,927	\$ 256,681	\$ 847,144	\$ 2,123,919	\$ 428,852	\$ 3,321,238	\$ 18,776,605

See independent auditors' report.