THE SOCIETY OF THE FOUR ARTS, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

For The Year Ended June 30, 2013
(with comparable totals for 2012)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Society of the Four Arts, Inc.
Palm Beach, Florida

We have audited the accompanying financial statements of The Society of Four Arts, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Society of Four Arts, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the June 30, 2012 financial statements, and our report dated December 7, 2012, expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Holyfield & Thomas, LLC

West Palm Beach, Florida
December 10, 2013

As of June 30, 2013 *(with comparable totals for 2012)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Totals	2012 Totals
ASSETS					
Cash and cash equivalents	$ 1,625,071	$ 450,827	$ -	$ 2,075,898	$ 4,982,308
Investments	9,135,195	17,297,384	1,000,000	27,432,579	24,649,916
Accrued interest and dividends receivable	19,305	39,389	-	58,694	52,849
Contributions receivable	-	3,846,431	-	3,846,431	7,005,379
Split interest agreements	-	935,144	-	935,144	868,225
Prepaid expenses	372,398	-	-	372,398	518,158
Property and equipment, net	32,226,776	-	-	32,226,776	24,555,007
Collection	-	-	-	-	-
Total assets	$ 43,378,745	$ 22,569,175	$ 1,000,000	$ 66,947,920	$ 62,631,842
LIABILITIES AND NET ASSETS					
Accounts payable and accruals	$ 209,549	$ -	$ -	$ 209,549	$ 663,459
Line of credit	3,681,490	-	-	3,681,490	4,431,490
Memberships paid in advance	41,000	-	-	41,000	103,300
Employee benefit plan contributions payable	-	-	-	-	38,033
Obligations under deferred compensation plans	736,179	-	-	736,179	554,720
Total liabilities	4,668,218	-	-	4,668,218	5,791,002
Net assets:					
Unrestricted:					
Board designated	9,135,195	-	-	9,135,195	8,042,467
Undesignated	29,575,332	-	-	29,575,332	20,422,910
Total unrestricted	38,710,527	-	-	38,710,527	28,465,377
Restricted	-	22,569,175	1,000,000	23,569,175	28,375,463
Total net assets	38,710,527	22,569,175	1,000,000	62,279,702	56,840,840
Total liabilities and net assets	$ 43,378,745	$ 22,569,175	$ 1,000,000	$ 66,947,920	$ 62,631,842

See accompanying notes to financial statements.

For the Year Ended June 30, 2013 *(with comparable totals for 2012)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Totals	2012 Totals
Support and revenue:					
Operating support and revenue:					
Contributions	$ 2,687,504	$ 355,733	$ -	$ 3,043,237	$ 3,908,074
Interest and dividends	212,119	437,359	-	649,478	810,242
Membership dues	1,462,520	-	-	1,462,520	1,309,935
Miscellaneous	12,529	-	-	12,529	30,957
Sponsored activities	455,280	-	-	455,280	431,717
Total operating support and revenue	4,829,952	793,092	-	5,623,044	6,490,925
Non-operating support:					
Contributions	-	3,697,909	-	3,697,909	8,045,670
Net realized and change in unrealized gain (loss) on investments	895,023	1,920,807	-	2,815,830	(1,414,609)
Change in present value of split interest agreements	-	66,919	-	66,919	42,574
Fundraising events	-	-	-	-	1,169,602
Interest and dividends	-	29,712	-	29,712	37,296
Total non-operating support	895,023	5,715,347	-	6,610,370	7,880,533
Total support and revenue	5,724,975	6,508,439	-	12,233,414	14,371,458
Net asset released from restrictions	11,314,727	(11,314,727)	-	-	-
Expenses:					
Program:					
Program events	1,785,622	-	-	1,785,622	2,697,609
Education	910,759	-	-	910,759	416,407
Library	851,316	-	-	851,316	828,376
Children's library	423,731	-	-	423,731	384,100
Gardens	977,813	-	-	977,813	546,916
Total program expenses	4,949,241	-	-	4,949,241	4,873,408
Supporting services:					
General and administrative	1,175,335	-	-	1,175,335	1,116,831
Fundraising	668,838	-	-	668,838	997,939
Total expenses	6,793,414	-	-	6,793,414	6,988,178
Loss on disposal of property and equipment	1,138	-	-	1,138	6,404
Total expenses and loss	6,794,552	-	-	6,794,552	6,994,582
Change in net assets	10,245,150	(4,806,288)	-	5,438,862	7,376,876
Net assets, beginning of year (as restated)	28,465,377	27,375,463	1,000,000	56,840,840	49,463,964
Net assets, end of year	$ 38,710,527	$ 22,569,175	$ 1,000,000	$ 62,279,702	$ 56,840,840

See accompanying notes to financial statements.

For the Year Ended June 30, 2013 (with comparable totals for 2012)

	2013 Totals	2012 Totals
Cash flows from operating activities:		
Cash received from contributors and grants	$ 11,768,123	$ 11,607,776
Interest and dividends received	673,345	873,450
Cash paid to employees and suppliers	(6,131,874)	(6,291,605)
Interest expense	(25,173)	-
Net cash provided by operating activities	6,284,421	6,189,621
Cash flows from investing activities:		
Proceeds from the sale of investments	5,287,355	16,697,839
Purchase of investments	(5,254,188)	(16,965,924)
Purchase of property and equipment	(8,473,998)	(3,990,358)
Net cash used in investing activities	(8,440,831)	(4,258,443)
Cash flows from financing activities:		
Advances from line of credit	1,000,000	-
Payments to line of credit	(1,750,000)	-
Net cash used in financing activities	(750,000)	-
Change in cash and cash equivalents	(2,906,410)	1,931,178
Cash and cash equivalents, beginning of year	4,982,308	3,051,130
Cash and cash equivalents, end of year	$ 2,075,898	$ 4,982,308

See accompanying notes to financial statements.

For the Year Ended June 30, 2013 ***(with comparable totals for 2012)***

	2013 Totals	2012 Totals
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 5,438,862	$ 7,376,876
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	801,091	593,777
Net realized and change in unrealized (gain) loss on investments	(2,815,830)	1,414,609
Change in discount of contribution receivable	13,866	(10,384)
Loss on disposal of property and equipment	1,138	6,404
Change in present value of split interest agreement	(66,919)	(42,574)
(Increase) decrease in certain assets:		
Accrued interest and dividends receivable	(5,845)	25,912
Contributions receivable	3,145,082	(3,212,195)
Prepaid expenses	145,761	(228,731)
Increase (decrease) in certain liabilities:		
Accounts payable and accruals	(453,911)	300,268
Memberships paid in advance	(62,300)	(65,600)
Employee benefit plan contributions payable	(38,033)	(52,016)
Obligations under deferred compensation plans	181,459	83,275
Net cash provided by operating activities	$ 6,284,421	$ 6,189,621

See accompanying notes to financial statements.

For the Year Ended June 30, 2013

	Program Services			
	Program Events	Education	Library	Children's Library
Salaries	$ 368,529	$ 194,878	$ 318,732	$ 192,585
Employee benefits	31,348	17,796	40,079	27,651
Payroll taxes	29,340	16,862	26,846	15,895
Pension expense	26,786	10,474	25,618	10,197
	456,003	240,010	411,275	246,328
Advertising	22,034	6,481	7,837	6,481
Artwork	-	13,000	-	-
Catering and events	50,115	28,198	5,182	3,524
Depreciation	114,733	187,563	94,987	10,920
Dues and subscriptions	2,960	2,417	1,794	1,119
Entertainment	860	1,570	325	295
Insurance	17,781	22,234	30,961	9,056
Interest	-	25,173	-	-
Library expense	-	-	52,232	35,718
Maintenance	87,539	25,801	80,441	24,411
Miscellaneous	1,041	3,421	3,260	284
Postage and shipping	6,097	6,806	9,137	9,039
Printing and publications	50,875	24,273	11,189	15,879
Professional fees	64,118	23,326	49,087	21,791
Sponsored activities	830,887	226,795	821	1,869
Supplies	17,878	25,929	18,006	4,477
Travel and study	3,795	2,738	5,323	4,700
Utilities	58,906	45,024	69,459	27,840
	$ 1,785,622	$ 910,759	$ 851,316	$ 423,731

See accompanying notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

(with comparable totals for 2012)

Program Services		Supporting Services			
Gardens	Program Subtotal	General and Administrative	Fundraising	2013 Totals	2012 Totals
$ 51,121	$ 1,125,845	$ 506,326	$ 286,474	$ 1,918,645	$ 1,683,587
2,782	119,656	33,200	19,620	172,476	161,180
3,420	92,363	36,213	20,243	148,819	135,927
4,028	77,103	38,772	21,488	137,363	145,020
61,351	1,414,967	614,511	347,825	2,377,303	2,125,714
6,480	49,313	51,843	28,514	129,670	132,934
400,000	413,000	-	-	413,000	-
7,359	94,378	28,690	81,987	205,055	130,692
244,092	652,295	111,198	37,598	801,091	593,777
871	9,161	6,963	3,829	19,953	16,233
209	3,259	1,747	919	5,925	4,689
6,011	86,043	14,053	3,606	103,702	96,837
-	25,173	-	-	25,173	-
-	87,950	-	-	87,950	94,953
164,775	382,967	63,163	13,545	459,675	455,449
284	8,290	2,311	1,250	11,851	7,210
1,793	32,872	14,347	7,891	55,110	42,854
9,857	112,073	36,732	20,789	169,594	159,099
17,701	176,023	143,576	77,884	397,483	411,179
11,754	1,072,126	2,828	12,668	1,087,622	2,339,748
3,704	69,994	22,666	9,964	102,624	94,819
720	17,276	6,436	3,235	26,947	18,069
40,852	242,081	54,271	17,334	313,686	263,921
$ 977,813	$ 4,949,241	$ 1,175,335	$ 668,838	$ 6,793,414	$ 6,988,177

See accompanying notes to financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

The Society of the Four Arts, Inc. (the "Society") is a private, not-for-profit corporation that was founded in 1936 to encourage the appreciation of the arts by presenting art exhibitions, lectures, concerts, films and educational programs. In addition, the Society has constructed and maintains a botanical garden, sculpture garden, library, education building, and children's library. The Society's facilities are located in Palm Beach, Florida and include an auditorium, exhibition hall, administrative office and libraries. The Society is supported primarily by income from its membership dues, investments, and contributions.

Wholly Owned Corporation

The accompanying financial statements include the accounts of the Society and Embassy Corporation, which is a wholly owned subsidiary corporation acquired in 1992. Inter-organization transactions and balances have been eliminated in combining the Embassy Corporation and the Society.

Financial Statements Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) as set forth under FASB Accounting Standards Codification (FASB ASC) 958-205 *"Presentation of Financial Statements."* Accordingly, the net assets of the Society are reported in each of the following classes:

Unrestricted - are those currently available for use in the current operations of the Society under the direction of the Board of Trustees, and those resources invested in land, buildings and equipment. This classification includes Board Designated funds in the Unitized and Rovensky accounts.

Temporarily restricted - are those stipulated by donors for specific operating purposes or for the acquisition of property and equipment; or those not currently available for use until commitments regarding their use have been fulfilled.

Permanently restricted - are those designated by donors that cannot be removed and that are unavailable for expenditure. Rather, these funds are to be invested for the production of income to support specific purposes, including the maintenance of the Society's physical building.

Net assets of the restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are legally unrestricted and are reported as part of the unrestricted class.

Basis of Accounting

The financial statements of the Society are prepared using the accrual basis of accounting whereas revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

1. Organization and Summary of Significant Accounting Policies, continued

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Fair Value of Financial Instruments

The Society follows FASB ASC 820-10 *"Fair Value Measurements and Disclosures,"* which provides a common definition of fair value, establishes a framework to measure fair value within accounting principles generally accepted in the United States of America, and expands the disclosures about fair value measurements. The standard does not create any new fair value measurements. Instead, it applies under existing accounting pronouncements that require or permit fair value measurements.

For assets and liabilities measured at fair value on a recurring basis, entities should disclose information that allows financial statement users to assess (1) the inputs used to develop such measurements, such as Level 1 (i.e., quoted price in an active market for an identical asset or liability), Level 2 (i.e., quoted price for similar assets or liabilities in active markets), or Level 3 (i.e., unobservable inputs); and (2) the effect on changes in net assets of recurring measurements that use significant unobservable (Level 3) inputs.

Cash and Cash Equivalents

The Society considers cash and cash equivalents to include cash in bank, as well as in savings accounts that are not necessarily insured by the Federal Deposit Insurance Corporation. For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less when purchased are considered to be cash and cash equivalents, except for such similar investments that are held and remain classified within the investment portfolio.

Investments

Pursuant to FASB ASC 958-320-00, *"Investments - Debt and Equity Securities,"* the Society's investments are stated at market value. Investment earnings, realized and unrealized gains and losses, and expenses are included in the change in net assets in the Statement of Activities.

Contributions Receivable

Contributions receivable of the Society represent unconditional promises to provide funding for certain programs for subsequent years by individuals, and are recognized as revenue and as receivable in the period the promise is received. Pledges receivable more than one year beyond the financial statement date are discounted to net present value using a discount rate of approximately .18%, which is the Applicable Federal Rate ("AFR") associated with these short-term instruments.

1. Organization and Summary of Significant Accounting Policies, continued

Split Interest Agreements

Split interest agreements represent the present value of investments that pay beneficiaries income for life and the principal becomes available to the Society upon the beneficiaries' death. The present value of the estimated future amount was calculated using a discount rate of approximately 6.0% (equal to the assumed growth and payout rates). Third party trustees hold the investments of the split interest agreements.

Property and Equipment

All property and equipment with a cost of $1,500 or more is capitalized. Property and equipment is stated at cost, or, if donated, fair value at the date of the gift. For the education building renovated during the year, cost includes capitalized interest incurred during the construction period. Donations of property and equipment are reported as unrestricted support. The Society does not accept donations of property or equipment with donor imposed restrictions. Depreciation is computed using the straight-line method over the estimated useful lives of related assets. Buildings and improvements are being depreciated over 40 years and furniture and fixtures over a period of 8 years.

Prepaid Expenses

The Society's prepaid expenses include advance payments for insurance, and advances, deposits and related costs incurred for lectures, events and exhibits that are yet to be held.

Contributions

The Society recognizes contributions received as income in the period received. Contributions are reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. The Society 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Similarly, the income generated on permanently restricted assets is classified as either unrestricted or temporarily restricted pending satisfaction of the original purpose restrictions. In accordance with allowable provisions of this accounting policy, donor restricted contributions whose restricted purpose is met within the same accounting period as received are reported as unrestricted contributions.

In-Kind Contributions

The Society records various types of in-kind support including contributed professional services and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. There were no significant contributions of professional services or materials for the year ended June 30, 2013.

1. Organization and Summary of Significant Accounting Policies, continued

Memberships

The Society's membership period is July 1 through June 30, and dues received in advance are reported as such in the Statement of Financial Position and are recognized as income over the ensuing period.

Operating Versus Non-operating Income

The Society records support and revenue as operating income if the funds are expected to be used in the current period of operations. Non-operating support and gains are increases in both unrestricted and restricted net asset classes that are not expected to be used in the current period of operations, but rather will be deferred for future needs.

Investment income that is budgeted for use in supporting various programs is recorded as operating income. Other investment income and net unrealized appreciation (depreciation) and realized gain (loss), on the other hand, are not budgeted for use in the current period and are considered non-operating income.

Functional Allocation of Expenses

The costs of providing the various services the Society offers have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

Advertising costs are charged to expense as incurred. Total advertising cost for the fiscal year ended June 30, 2013 was approximately $129,700.

Income Taxes

The Society is a not-for-profit organization other than a private foundation. The Society qualifies as a not-for-profit organization under Internal Revenue Code Section 501(c)(3) since it is organized and operates exclusively for educational purposes. Internal Revenue Code Section 501(a) exempts the Society from income taxes and Internal Revenue Code Section 170(b)(1)(A)(VI) allows donors a deduction for contributions to the Society.

The Society follows FASB ASC 740-10, "*Accounting for Uncertainty in Income Taxes.*" This pronouncement seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. It prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. An entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. The Society assesses its income tax positions based on management's evaluation of the facts, circumstances and information available at the reporting date. The Society uses the prescribed more likely than not threshold when making its assessment. There are currently no open Federal or State tax years under audit.

1. <u>Organization and Summary of Significant Accounting Policies</u>, continued

Prior Period Summarized Information

The Society's financial statements include summarized comparative data as of and for the year ended June 30, 2012. With respect to the Statement of Financial Position and Statement of Activities, such prior year information is not necessarily presented by net asset class. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

2. <u>Endowments</u>

The Society's endowment consists of 26 individual funds established to support its programs. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. FASB ASC 958, "*Not-for-Profit Entities*," provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and Board-designated endowment funds), whether or not the organization is subject to UPMIFA.

The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA), which became effective July 1, 2012 and a) provides consistent investment and spending standards to all forms of charitable funds, b) strengthens the concept of prudent investing, c) abandons historic dollar value as a floor for expenditures and provides more flexibility to the organization in making decisions about whether to expend any portion of an endowment fund, and d) provides a process for the release or modification of restrictions on a gift instrument. The adoption by the Society of the provisions of the new law did not have a significant change in its management and investment policies of endowments.

As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence.

2. Endowments, continued

In accordance with FUPMIFA, the Society 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 organization 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 Society
7. The investment policies of the Society

Endowment net assets by type of fund as of June 30, 2013, consist of the following:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$22,569,175	$ 1,000,000	$23,569,175
Board-designated endowment funds	9,135,195	-	-	9,135,195
Total	$ 9,135,195	$22,569,175	$ 1,000,000	$32,704,370

Changes in the endowment net assets for the year ended June 30, 2013, consist of the following:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 8,042,467	$27,375,463	$ 1,000,000	$36,417,930
Investment return:				
Investment income	314,855	466,945	-	781,800
Investment expenses	(57,319)	(121,789)	-	(179,108)
Net depreciation	895,023	1,920,807	-	2,815,830
Total investment return	1,152,559	2,265,963	-	3,418,522
Contributions	178,700	3,032,493	-	3,211,193
Change in present value of split interest agreements	-	66,919	-	66,919
Board designations	76,698	-	-	76,698
Transfers	-	17,019	-	17,019
Appropriation of endowment assets for expenditure	(315,229)	(10,188,682)	-	(10,503,911)
Total	$ 9,135,195	$22,569,175	$ 1,000,000	$32,704,370

2. Endowments, continued

Return objectives and risk parameters

The Society 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 Society must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a weighted benchmark of equity and fixed income indexes while assuming a moderate level of investment risk. The Society expects its endowment funds, over time, to provide an average annual rate of return of 6.50 – 7.00 percent for the unitized endowment and 5.75 – 6.25 percent for the Rovensky endowment . Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Society 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 Society targets a diversified asset allocation that places a balanced emphasis on equity, fixed income, and other investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy.

The Society has a policy of appropriating for distribution each year 4.33 percent of its endowment fund's based on a five-year rolling average calculation. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its unitized endowment to grow at an average of 2.17 – 2.67 percent annually, net of the spending appropriation. This is consistent with the Society's 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.

3. Investments

As of June 30, 2013, major categories of investments were comprised of the following:

Description	Market Value	Historical Cost	Unrealized Gain/(Loss)
Money market accounts	$ 2,665,861	$ 2,665,861	$ -
Fixed income mutual funds	5,579,476	5,469,069	110,407
Equity mutual funds	2,569,323	2,999,491	(430,168)
Common Stocks	16,617,919	14,105,168	2,512,751
Total investments	$ 27,432,579	$ 25,239,589	$ 2,192,990

3. Investments, continued

Net realized and change in unrealized gain on investments consisted of the following for the year ended June 30, 2013:

Balance of unrealized gain, end of year	$ 2,192,990
Balance of unrealized loss, beginning of year	180,500
Total change in unrealized gain for the year	2,373,490
Net realized gain	442,340
Net realized and change in unrealized gain	$ 2,815,830

Net realized and change in unrealized gain on investments are reported in the Statement of Activities as follows:

Unrestricted:	
Net unrealized gain	$ 756,852
Net realized gain	138,171
	895,023
Temporarily restricted:	
Net unrealized gain	1,616,638
Net realized gain	304,169
	1,920,807
Net realized and change in unrealized gain	$ 2,815,830

4. Fair Value Measurements

FASB ASC 820-10 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 under FASB ASC 820-10 are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liability; Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

4. Fair Value Measurements, continued

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value of Financial Instruments: The following methods and assumptions were used by the Society in estimating fair value of financial instruments that are not disclosed under ASC 820.

a) Cash equivalents and liabilities – The carrying amount reported approximates fair value due to the short term duration of the instrument.

Items Measured at Fair Value on a Recurring Basis: The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2013.

b) Investments
   i. *Money market accounts* – Valued at the reported bank or brokerage amounts.
   ii. *Fixed income mutual funds*– Valued at quoted market prices or net asset value ("NAV") by the custodians as of the close of business at year end June 30, 2013.
   iii. *Common stocks* – Valued at quoted market prices by the custodians as of the close of business at year end June 30, 2013.
c) Interest and dividends receivable – Valued at reported brokerage amounts.
d) Contributions receivable – Valued at the present value of estimated future cash flows using an approximate risk free discount rate of 0.18%.
e) Split interest agreements – Valued at the present value of estimated future cash flows, using the life expectancy of the income beneficiary and discounted at a rate approximating current market rates.

FASB ASC 825-10 permits entities to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Society has adopted the fair value option for its contributions receivable and its split interest agreements.

The following table sets forth by level, within the fair value hierarchy, the Society's assets at fair value as of June 30, 2013.

	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Investments	$ 27,432,579	$ -	$ -	$ 27,432,579
Interest and dividends receivable	-	-	58,694	58,694
Contributions receivable	-	-	3,846,431	3,846,431
Split interest agreements	-	-	935,144	935,144
Total assets at fair value	$ 27,432,579	$ -	$ 4,840,269	$ 32,272,848

4. Fair Value Measurements, continued

The table below sets forth a summary of changes in the fair value of the Society's level 3 assets for the year ended June 30, 2013.

	Level 3 Assets as of June 30, 2013		
	Interest and Dividends	Contributions Receivable	Split interest Agreements
Balance, end of year	$ 52,849	$ 7,005,379	$ 868,225
Realized gain	5,845	13,866	66,919
Purchases, sales, issuance and settlements, net	-	(3,172,814)	-
Balance, end of year	$ 58,694	$ 3,846,431	$ 935,144

FASB ASC 820-10 requires disclosure of quantitative information about the unobservable inputs used to measure Level 3 assets and liabilities. The following table provides information about the split interest agreements:

	Fair Value	Valuation Techniques	Unobservable Inputs
Interest and dividends	$ 58,694	Reported brokerage amounts	Discount rate
Contributions receivable	$ 3,846,431	Discounted cash flows	Discount rate
Split interest agreements	$ 935,144	Discounted cash flows	Discount rate, life expectancy of income beneficiary

5. Concentrations

Cash and cash equivalents include checking accounts and money market mutual funds. Cash is deposited with high credit quality bank and investment institutions. Accounts at each bank institution are insured by the Federal Deposit Insurance Corporation up to $250,000. As of June 30, 2013, there was approximately $1,844,000 uninsured deposits held in banks. The Society has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash and cash equivalents.

6. *Contributions Receivable*

Contributions receivable are recorded for unconditional promises to fund programs for subsequent years. Contributions receivable as of June 30, 2013, relate to the Society's capital campaign and are collectible over the next five years. All of the contributions receivable are recorded as temporarily restricted in the Statement of Financial Position and consisted of the following amounts:

Receivable in less than one year	$ 1,234,331
Receivable in one to five years	2,620,050
Total contributions receivable	3,854,381
Discount to net present value of contributions receivable in more than one year	(7,950)
Contributions receivable, net	$ 3,846,431

7. *Split Interest Agreements*

As of June 30, 2013 the Society was a named beneficiary of two split interest agreements. The purpose, amounts and discounts related to these agreements as of June 30, 2013, are as follows:

Temporarily restricted – time restriction	$ 2,380,330
Discount to net present value of split interest agreements	(1,445,186)
Total split interest agreements	$ 935,144

8. *Property and Equipment*

Property and equipment as of June 30, 2013, consisted of the following:

Land	$ 3,040,668
Buildings and improvements	32,580,511
Furniture and fixtures	4,103,813
	39,724,992
Accumulated depreciation	(7,498,216)
Total property and equipment, net	$ 32,226,776

Property and equipment as of June 30, 2013, included the costs incurred in the renovation of the Education Building. Total cost includes capitalized interest cost of $166,389 incurred during the year.

9. Collection

The Society's collection includes paintings, sculptures, graphics, ceramics, furniture and other items. In conformity with the practices followed by many museums, collection items that are (a) held for public exhibition and education; (b) protected, cared for and preserved; and (c) subject to a policy designating the proceeds from any sales of collection items to acquiring or preserving other collections, are not capitalized and are not reported in the Statement of Financial Position.

The Society has developed policies for the stewardship of the collection following the guidelines of the American Association of Museums. To be considered for the collection, the item should be related to the collection as it now exists, the item should be high quality, and the item must be appropriate to the existing body of work in the area it is to be placed. The Society also considers the special requirements for storage and exhibition. If the item is to be donated, the donor shall also be willing to make an unrestricted gift.

To be considered for sale, the Society must determine that it is unable to properly care for the object, or it is determined that there is a marked discrepancy between the cost of conservation and the aesthetic, historical, or financial value of the object. Objects of markedly inferior quality, either intrinsically or relatively, in comparison with other objects of the same type in the collection, may be considered for sale. Also, objects now determined to lack relevance to the collection may be considered for sale. In any sale or disposal of collections items, the appropriate level of approval must be obtained and the proceeds from the sale are designated for acquisition or direct care of the collection.

The fair value of the collection objects acquired by gift for which the Society can make a reasonable estimate or obtain appraisals are not reported as contribution revenue in the Statement of Activities because the collection is not capitalized. During 2013, the Society received a donated collection object valued at approximately $160,000.

Proceeds from the sale of collection items, if any, are reported as an increase in unrestricted net assets. There were no sales during the fiscal year. The Society purchased a $400,000 sculpture ("Recovery") during the year ended June 30, 2013.

10. Line of Credit

The Society has a $3,000,000 revolving line of credit agreement with 1st United Bank. The loan requires interest to be paid monthly at LIBOR plus 1.25%, has no maturity date, and is collateralized by certain of the Society's investments. This line of credit is secured by all investment assets held in the Society's Unitized Account at Bank of America. The outstanding balance on the line of credit as of June 30, 2013 was $1,500,000.

10. Line of Credit, continued

The Society increased a second line of credit by $5,000,000 to $13,500,000 in prior year. This line of credit agreement with 1st United Bank is to be used for the purchase and renovation of the Education Building project. The loan requires interest to be paid monthly at LIBOR plus 1.50%, has no maturity date, and is collateralized by the same account that secures the $3,000,000 revolving line of credit mentioned above. The outstanding balance on the line of credit as of June 30, 2013 was $3,681,490.

Both loans are secured by the same investment account, which on June 30th, 2013 provided a cumulative loan to value of 14% using the two line of credit balances as of June 30, 2013. Additionally both loans are subject to a 70% maximum borrowing amount based on the fair market value of the investments held in the Unitized Account at Bank of America as of June 30, 2013.

11. Temporarily Restricted Net Assets

Temporary restrictions on assets are imposed by the donor and include restrictions for specified programs or purposes, or a specified time when the assets may be used. Temporarily restricted net assets as of June 30, 2013, were available for the following purposes or periods:

Program funding for subsequent periods	$ 10,128,611
Building and improvement programs	12,440,564
	$ 22,569,175

12. Permanently Restricted Net Assets

Permanent restrictions on assets prohibit the expenditure of the principal amount of the donation. Income from the investment of such assets, however, is available for use as specified by the donor and is classified as temporarily restricted pending satisfaction of the purpose restriction. Permanently restricted net assets as of June 30, 2013, are invested for the specific purpose of supporting the maintenance and preserving the Society's John E. Rovensky Building.

13. Employee Benefit Plans

Deferred Compensation Plans

The Society offers certain executive employees selected by the Board of Trustees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan permits the Board of Trustees to approve additional compensation for selected executives and to defer it on their behalf under the plan. In addition, covered employees may defer additional amounts through salary reduction agreements. Both Society contributions and covered employee contributions are subject to statutory limits. All deferred compensation under the plan is not available to covered employees until termination, retirement, death or an unforeseeable emergency. All amounts of compensation deferred under the plan, all property, and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the covered employee or other beneficiary) solely the property and rights of the Society, subject to the claims of the Society's creditors.

13. Employee Benefit Plans, continued

The total amount of contributions paid by the Society under this plan during the year ended June 30, 2013, was $51,400. Funds of the plan are invested in a variety of mutual funds as directed by the employees. These funds had a fair value of approximately $736,200 as of June 30, 2013.

Defined Contribution Plan

The Society offers a retirement benefit plan under the Internal Revenue Code 401(k). All employees are eligible to contribute to this plan, however, only employees that meet the initial eligibility requirements are eligible to receive matching fully-vested contributions. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Society may, at its discretion, make contributions to the plan. The total amount of contributions accrued and expensed by the Society during the year ended June 30, 2013, was approximately $83,000.

Supplemental Pension Benefits

The Society provided additional taxable compensation to an employee as a supplemental retirement benefit. The amount expensed as a supplemental benefit was approximately $3,000 for the year ended June 30, 2013.

14. Lease Commitments

The Society leases various equipment under non-cancellable operating leases that range from 48 to 60 months. Rent expense for these leases for the year ended June 30, 2013, totaled approximately $15,000.

As of June 30, 2013, future minimum lease payments on the above leases are as follows:

Year Ending June 30,	Amount
2014	$ 15,005
2015	9,071
2016	3,911
2017	3,911
2018	3,911
	$ 35,809

15. Related Party Transactions

The Society paid for the services of an architect that is related to a current member of the Executive Committee and Board of Trustees. A conflict of interest policy was circulated, signed, and all related parties recused themselves from all matters concerning the busniess relationship. The Society incurred fees related to these architecture services for the renovation of the education building and during the year ended June 30, 2013, the Society paid approximately $86,632 in architect fees. There was no outstanding balance due for these architect fees as of June 30, 2013.

16. *Prior Period Adjustment*

During 2013, management discovered that the Society's interest in the split interest agreements were overstated in previous years. The effect of making the adjustment on the previously reported net assets as of June 30, 2012, and the change in net assets for the year then ended are presented in table below:

	June 30, 2012		
	Original Balance	Adjustment	Restated Balance
Split interest agreements	$ 1,870,572	$(1,002,347)	$ 868,225
Change in present value of split interest agreements	$ 483,367	$(440,793)	$ 42,574
Net assets	$57,843,187	$(1,002,347)	$56,840,840

17. *Subsequent Events*

Management has evaluated subsequent events through December 10, 2013, the date on which the financial statements were available to be issued, and determined there were no events to disclose in these financial statements.