THE SOCIETY OF THE FOUR ARTS, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

For The Year Ended June 30, 2015
(with comparable totals for 2014)

DRAFT 12-08-2015

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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, 2015, 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, 2015, 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, 2014 financial statements, and our report dated December 10, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Draft

West Palm Beach, Florida
December __, 2015

As of June 30, 2015 ***(with comparable totals for 2014)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Totals	2014 Totals
ASSETS					
Cash and cash equivalents	$ 2,708,822	$ 653,344	$ -	$ 3,362,166	$ 2,427,499
Contributions receivable, current portion	-	489,308	-	489,308	1,248,333
Prepaid expenses	499,782	-	-	499,782	503,934
Certificates of deposit	3,602,629	-	-	3,602,629	-
Total current assets	6,811,233	1,142,652	-	7,953,885	4,179,766
Contributions receivable	-	744,300	-	744,300	1,832,800
Accrued interest and dividends receivable	14,054	28,664	-	42,718	54,765
Investments in endowments	9,607,585	19,612,749	1,222,761	30,443,095	30,394,541
Investments in deferred compensation plans	1,025,726	-	-	1,025,726	930,488
Split interest agreements	-	746,050	-	746,050	1,043,522
Property and equipment, net	30,900,832	-	-	30,900,832	31,691,752
Collection	-	-	-	-	-
Total assets	$ 48,359,430	$ 22,274,415	$ 1,222,761	$ 71,856,606	$ 70,127,634
LIABILITIES AND NET ASSETS					
Accounts payable and accruals	$ 610,201	$ -	$ -	$ 610,201	$ 193,764
Deferred revenue	534,776	-	-	534,776	-
Line of credit	-	-	-	-	1,193,235
Total current liabilities	1,144,977	-	-	1,144,977	1,386,999
Obligations under deferred compensation plans	1,025,726	-	-	1,025,726	930,488
Total liabilities	2,170,703	-	-	2,170,703	2,317,487
Net assets:					
Unrestricted:					
Board designated	10,968,625	-	-	10,968,625	10,907,221
Undesignated	35,220,102	-	-	35,220,102	31,172,546
Total unrestricted	46,188,727	-	-	46,188,727	42,079,767
Restricted	-	22,274,415	1,222,761	23,497,176	25,730,380
Total net assets	46,188,727	22,274,415	1,222,761	69,685,903	67,810,147
Total liabilities and net assets	$ 48,359,430	$ 22,274,415	$ 1,222,761	$ 71,856,606	$ 70,127,634

See accompanying notes to financial statements.

For the Year Ended June 30, 2015 ***(with comparable totals for 2014)***

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Totals	2014 Totals
Support and revenue:					
Operating support and revenue:					
Contributions	$ 7,424,691	$ -	$ -	$ 7,424,691	$ 3,626,271
Interest and dividends	221,729	445,409	-	667,138	769,390
Membership dues	1,477,720	-	-	1,477,720	1,504,630
Miscellaneous	14,451	-	-	14,451	10,039
Sponsored activities	780,894	-	-	780,894	681,345
Total operating support and revenue	9,919,485	445,409	-	10,364,894	6,591,675
Non-operating support:					
Contributions	81,000	284,026	-	365,026	1,886,462
Net realized and change in unrealized gain (loss) on investments	(81,976)	(335,203)	44,380	(372,799)	3,779,152
Change in present value of split interest agreements	-	(138,583)	-	(138,583)	108,378
Fundraising events	28,547	34,956	-	63,503	1,582,849
Interest and dividends	2,628	24,461	-	27,089	26,680
Total non-operating support	30,199	(130,343)	44,380	(55,764)	7,383,521
Total support and revenue	9,949,684	315,066	44,380	10,309,130	13,975,196
Net asset released from restrictions	2,592,650	(2,591,793)	(857)	-	-
Expenses:					
Program:					
Program events	2,270,806	-	-	2,270,806	2,188,679
Education	1,666,188	-	-	1,666,188	1,680,281
Library	744,326	-	-	744,326	697,147
Children's library	475,526	-	-	475,526	502,417
Gardens	1,095,698	-	-	1,095,698	709,662
Total program expenses	6,252,544	-	-	6,252,544	5,778,186
Supporting services:					
General and administrative	1,369,484	-	-	1,369,484	1,390,431
Fundraising	696,527	-	-	696,527	1,274,825
Total expenses	8,318,555	-	-	8,318,555	8,443,442
Loss on disposal of property and equipment	114,819	-	-	114,819	1,309
Total expenses and loss	8,433,374	-	-	8,433,374	8,444,751
Change in net assets	4,108,960	(2,276,727)	43,523	1,875,756	5,530,445
Net assets, beginning of year	42,079,767	24,730,380	1,000,000	67,810,147	62,279,702
Transfers	-	(179,238)	179,238	-	-
Net assets, end of year	$ 46,188,727	$ 22,274,415	$ 1,222,761	$ 69,685,903	$ 67,810,147

See accompanying notes to financial statements.

For the Year Ended June 30, 2015 (with comparable totals for 2014)

	2015 Totals	2014 Totals
Cash flows from operating activities:		
Cash received from contributors and grants	$ 12,508,586	$ 10,015,894
Interest and dividends received	706,274	799,999
Cash paid to employees and suppliers	(6,722,822)	(7,400,625)
Interest expense	(6,016)	(40,379)
Net cash provided by operating activities	6,486,022	3,374,889
Cash flows from investing activities:		
Proceeds from split interest agreement	158,889	-
Proceeds from the sale of investments	16,616,675	5,779,645
Purchase of investments in endowments	(17,038,028)	(5,698,634)
Purchase of certificates of deposits	(3,602,629)	-
Purchase of property and equipment	(493,027)	(616,044)
Net cash used in investing activities	(4,358,120)	(535,033)
Cash flows from financing activities:		
Advances from line of credit	-	1,500,000
Payments to line of credit	(1,193,235)	(3,988,255)
Net cash used in financing activities	(1,193,235)	(2,488,255)
Change in cash and cash equivalents	934,667	351,601
Cash and cash equivalents, beginning of year	2,427,499	2,075,898
Cash and cash equivalents, end of year	$ 3,362,166	$ 2,427,499

See accompanying notes to financial statements.

For the Year Ended June 30, 2015 (with comparable totals for 2014)

	2015 Totals	2014 Totals
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 1,875,756	$ 5,530,445
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,169,128	1,149,759
Net realized and change in unrealized (gain) loss on investments	372,799	(3,779,152)
Change in discount of contribution receivable	(4,816)	467
Loss on disposal of property and equipment	114,819	1,309
Change in present value of split interest agreement	138,583	(108,378)
(Increase) decrease in certain assets:		
Accrued interest and dividends receivable	12,047	3,929
Contributions receivable	1,852,341	764,831
Prepaid expenses	4,152	(131,536)
Increase (decrease) in certain liabilities:		
Accounts payable and accruals	416,437	(15,785)
Deferred revenue	534,776	(41,000)
Net cash provided by operating activities	$ 6,486,022	$ 3,374,889

See accompanying notes to financial statements.

THE SOCIETY OF THE FOUR ARTS, INC.

For the Year Ended June 30, 2015

	Program Services			
	Program Events	Education	Library	Children's Library
Salaries	$ 423,916	$ 290,390	$ 350,953	$ 236,071
Employee benefits	37,253	27,907	35,733	32,837
Payroll taxes	32,850	23,660	28,555	19,163
Pension expense	35,859	25,154	26,681	16,459
	529,878	367,111	441,922	304,530
Advertising	140,976	53,347	4,082	2,766
Artwork	15,525	3,105	3,105	1,553
Catering and events	70,154	104,819	9,170	7,458
Depreciation	118,353	565,344	66,654	20,534
Dues and subscriptions	4,074	2,024	3,574	968
Entertainment	1,086	3,066	480	269
Insurance	17,506	13,390	8,338	4,964
Interest	-	6,016	-	-
Library expense	-	-	68,955	43,359
Maintenance	123,553	87,091	36,953	20,864
Miscellaneous	825	837	1,001	242
Postage and shipping	11,785	8,926	4,583	5,467
Printing and publications	57,119	28,281	7,866	16,605
Professional fees	83,948	37,161	26,877	20,931
Sponsored activities	1,004,899	279,309	2,171	4,297
Supplies	26,642	18,817	15,345	7,331
Travel and study	2,856	2,627	3,332	2,644
Utilities	61,627	84,917	39,918	10,744
	$ 2,270,806	$ 1,666,188	$ 744,326	$ 475,526

See accompanying notes to financial statements.

(with comparable totals for 2014)

Program Services		Supporting Services			
Gardens	Program Subtotal	General and Administrative	Fundraising	2015 Totals	2014 Totals
$ 79,248	$ 1,380,578	$ 540,360	$ 290,031	$ 2,210,969	$ 2,087,175
6,651	140,381	44,337	25,330	210,048	197,018
5,761	109,989	38,054	20,338	168,381	162,927
6,436	110,589	43,022	19,340	172,951	175,612
98,096	1,741,537	665,773	355,039	2,762,349	2,622,732
2,757	203,928	14,330	7,524	225,782	166,379
401,552	424,840	6,210	-	431,050	-
12,316	203,917	56,356	42,767	303,040	809,202
253,323	1,024,208	107,113	37,807	1,169,128	1,149,759
681	11,321	5,449	2,860	19,630	20,076
268	5,169	2,041	1,301	8,511	5,372
4,965	49,163	39,328	20,447	108,938	108,074
-	6,016	-	-	6,016	40,379
-	112,314	-	-	112,314	102,577
206,226	474,687	126,582	48,806	650,075	633,460
242	3,147	1,939	1,018	6,104	6,209
2,566	33,327	20,510	10,824	64,661	74,764
7,521	117,392	47,430	24,877	189,699	207,497
20,905	189,822	167,092	87,651	444,565	574,313
12,975	1,303,651	5,939	11,125	1,320,715	1,389,369
4,586	72,721	28,663	11,870	113,254	93,673
593	12,052	4,321	3,669	20,042	51,843
66,126	263,332	70,408	28,942	362,682	387,764
$ 1,095,698	$ 6,252,544	$ 1,369,484	$ 696,527	$ 8,318,555	$ 8,443,442

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, educational building, 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 account.
>
> 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.

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 .43%, which is the Applicable Federal Rate ("AFR") associated with these short-term instruments. Management deems contributions receivable to be fully collectible, thus there is no allowance for doubtful accounts.

Prepaid Expenses

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

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

Investments

Pursuant to FASB ASC 958-320, *"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.

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%. Third party trustees hold the investments of the split interest agreements.

Property and Equipment

All property and equipment with a cost of $5,000 or more is capitalized. Property and equipment is stated at cost, or, if donated, fair value at the date of the gift. 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.

Support and Revenues

In accordance with FASB ASC 958-605, "*Not-for-Profit Entities, Revenue Recognition*," 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.

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.

Sponsor activity fees are recognized as revenue in the period in which the related activity is performed. Fees collected prior to the commencement of the sponsor activity are recorded as deferred revenue. Deferred revenue as of June 30, 2015 consisted of fees collected in advance of the educational excursion to Piedmont, Italy.

1. Organization and Summary of Significant Accounting Policies, continued

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. During the year ended June 30, 2015, the Society received donated assets, such as materials and supplies and other non-cash donations, which are recorded as contributions at their estimated fair value at the date of donation. The total amount of donated assets received during the year ended June 30, 2015 amounted to approximately $40,500.

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, 2015 was approximately $225,800.

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.

1. *Organization and Summary of Significant Accounting Policies, continued*

Income Taxes, continued

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.

Prior Period Summarized Information

The Society's financial statements include summarized comparative data as of and for the year ended June 30, 2014. 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, 2014, from which the summarized information was derived.

2. *Endowments*

The Society's endowment consists of 24 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 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 provides a) 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, 2015, consist of the following:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 19,641,413	$ 1,222,761	$ 20,864,174
Board-designated endowment funds	9,621,639	-	-	9,621,639
Total	$ 9,621,639	$ 19,641,413	$ 1,222,761	$ 30,485,813

Changes in the endowment net assets for the year ended June 30, 2015, consist of the following:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 9,626,073	$ 19,823,233	$ 1,000,000	$ 30,449,306
Investment return:				
Investment income	221,719	469,870	-	691,589
Investment expenses	(65,604)	(134,471)	(857)	(200,932)
Net appreciation	(81,976)	(335,203)	44,380	(372,799)
Total investment return	74,139	196	43,523	117,858
Contributions	81,000	773,369	-	854,369
Board designations	123,912	-	-	123,912
Transfers	70,256	(249,494)	179,238	-
Appropriation of endowment assets for expenditure	(353,741)	(705,891)	-	(1,059,632)
Total endowment net assets, end of year	$ 9,621,639	$ 19,641,413	$ 1,222,761	$ 30,485,813

2. Endowments, continued

In addition to endowment net assets, the Society also has other non-endowed assets that are either board-designated or donor-restricted. The following table summarizes all Society designated and restricted net assets as of June 30, 2015.

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Total endowment net assets	$ 9,621,639	$ 19,641,413	$ 1,222,761	$ 30,485,813
Non-endowment assets:				
Cash and cash equivalents	321,260	653,344	-	974,604
Investments in deferred compensation plans	1,025,726	-	-	1,025,726
Contributions receivable	-	1,233,608	-	1,233,608
Split interest agreements	-	746,050	-	746,050
Total designated and restricted net assets	$ 10,968,625	$ 22,274,415	$ 1,222,761	$ 34,465,801

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, 2015, major categories of investments were comprised of the following:

Description	Market Value	Historical Cost	Unrealized Gain/(Loss)
Money market accounts	$ 2,055,979	$ 2,055,979	$ -
Fixed income mutual funds	7,724,940	7,765,401	(40,461)
Equity mutual funds	2,817,728	2,749,470	68,258
Common stocks	18,870,174	16,546,754	2,323,420
Total investments	$ 31,468,821	$ 29,117,604	$ 2,351,217

Investments are reported in the Statement of Financial Position as investments in endowments, $30,443,095, and investments in deferred compensation plan, $1,025,726.

Net realized and change in unrealized gain (loss) on investments consisted of the following for the year ended June 30, 2015:

Balance of unrealized gain, end of year	$ 2,351,217
Balance of unrealized gain, beginning of year	4,744,123
Total change in unrealized gain (loss) for the year	(2,392,906)
Net realized gain	2,020,107
Net realized and change in unrealized gain (loss)	$ (372,799)

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

Unrestricted:	
Net unrealized loss	$ (750,850)
Net realized gain	668,874
	(81,976)
Temporarily restricted:	
Net unrealized loss	(1,684,041)
Net realized gain	1,348,838
	(335,203)
Permanently restricted:	
Net unrealized gain	41,986
Net realized gain	2,394
	44,380
Net realized and change in unrealized gain (loss)	$ (372,799)

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.

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.

b) Certificate of deposits – The carrying amount reported net of accrued interest approximates fair value due to the short term 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, 2015.

a) Contributions receivable – Valued at the present value of estimated future cash flows using an approximate risk free discount rate of 0.43%.

b) Interest and dividends receivable – Valued at reported brokerage amounts.

c) Investments:
   i. *Money market accounts* – Valued at the reported bank or brokerage amounts.

   ii. *Fixed income and equity 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, 2015.

   iii. *Common stocks* – Valued at quoted market prices by the custodians as of the close of business at year end June 30, 2015.

4. *Fair Value Measurements, continued*

d) 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, 2015.

	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Contributions receivable	$ -	$ -	$ 1,233,608	$ 1,233,608
Interest and dividends receivable	-	-	42,718	42,718
Investments	31,468,821	-	-	31,468,821
Split interest agreements	-	-	746,050	746,050
Total assets at fair value	$ 31,468,821	$ -	$ 2,022,376	$ 33,491,197

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, 2015.

	Level 3 Assets as of June 30, 2015		
	Contributions Receivable	Interest and Dividends	Split interest Agreements
Balance, end of year	$ 3,081,133	$ 54,765	$ 1,043,522
Realized and unrealized gain (loss)	4,816	(12,047)	(138,583)
Purchases, sales, issuance and settlements, net	(1,852,341)	-	(158,889)
Balance, end of year	$ 1,233,608	$ 42,718	$ 746,050

4. *Fair Value Measurements, continued*

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
Contributions receivable	$ 1,233,608	Discounted cash flows	Discount rate
Interest and dividends	$ 42,718	Reported brokerage amounts	Discount rate
Split interest agreements	$ 746,050	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 an aggregate of $250,000 per bank. As of June 30, 2015, there was approximately $2,933,000 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 are recognized in the period an unconditional promise to give is received. Contributions receivable are recorded at face value if due in less than one year, or at net realizable value, discounted as appropriate to reflect the estimated timing of receipt for contributions, if due more than one year after the date of receipt. Contributions receivable as of June 30, 2015, relate to the Society's capital campaign and are collectible over the next five years. All of the capital campaign contributions receivable are recorded as temporarily restricted in the Statement of Financial Position. Contributions receivable consisted of the following amounts as of June 30, 2015:

Receivable in less than one year	$ 489,308
Receivable in one to five years	747,901
Total contributions receivable	1,237,209
Discount to net present value of contributions receivable in more than one year	(3,601)
Contributions receivable, net	$ 1,233,608

7. *Split Interest Agreements*

As of June 30, 2015 the Society was a named beneficiary of a split interest agreement. The purpose, amounts and discounts related to this agreement as of June 30, 2015, are as follows:

Temporarily restricted – time restriction	$ 1,849,410
Discount to net present value of split interest agreement	(1,103,360)
Total split interest agreement	$ 746,050

8. *Property and Equipment*

Property and equipment as of June 30, 2015, consisted of the following:

Land	$ 3,040,668
Buildings and improvements	32,942,738
Furniture and fixtures	4,562,525
	40,545,931
Accumulated depreciation	(9,645,099)
Total property and equipment, net	$ 30,900,832

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.

9. 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.

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 ("Allies") during the year ended June 30, 2015.

10. Line of Credit

The Society has a $3,000,000 revolving line of credit agreement with Valley National Bank. The line requires interest to be paid monthly at LIBOR plus 1.25% (1.42% as of June 30, 2015), and has no maturity date. 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, 2015 was $0.

The Society has a second line of credit with Valley National Bank for $13,500,000. This line was to be used for the purchase and renovation of the Education Building project. The line requires interest to be paid monthly at LIBOR plus 1.50% (1.67% as of June 30, 2015), and has no maturity date. This line of credit 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, 2015 was $0.

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, 2015, were available for the following purposes or periods:

Program funding for subsequent periods	$ 10,558,398
Building and improvement programs	11,716,017
	$ 22,274,415

12. Permanently Restricted Net Assets

Permanent restrictions on assets prohibit the expenditure of the principal amount of the donation. Interest and dividend 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, 2015, 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 such amounts 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: a) reach the age of 70.5; b) termination; c) death; or d) 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.

The total amount of contributions paid by the Society under this plan during the year ended June 30, 2015, was $46,950. Funds of the plan are invested in a variety of mutual funds and stocks as directed by the employees. These funds had a fair value of approximately $1,025,700 as of June 30, 2015.

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, 2015, was approximately $126,000.

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, 2015, totaled approximately $21,400.

As of June 30, 2015, future minimum lease payments on the above leases are as follows:

Year Ending June 30,	Amount
2016	$ 21,407
2017	11,872
2018	3,911
	$ 37,190

15. Subsequent Events

Management has evaluated subsequent events through December __, 2015, the date on which the financial statements were available to be issued, and determined there were no events to disclose in these financial statements.