



SAN DIEGO MUSEUM OF ART
Financial Statements and Supplemental Information

Years Ended June 30, 2014 and 2013



SAN DIEGO MUSEUM OF ART
Financial Statements and Supplemental Information
Years Ended June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of San Diego Museum of Art

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Museum of Art (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 San Diego Museum of Art as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

AKT LLP

San Diego, California
November 24, 2014

SAN DIEGO MUSEUM OF ART

Statements of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 981,343	\$ 279,401
Accounts receivable	239,202	317,156
Pledges receivable	603,834	413,699
Grants receivable	312	6,881
Inventory	226,371	185,664
Prepaid expenses	32,876	72,413
Property and equipment, net of accumulated depreciation	6,708,112	6,181,435
Deferred charges, net of accumulated amortization	129,738	137,803
Investments - charitable remainder trusts and gift annuities	2,605,550	2,434,036
Investments	78,267,743	72,415,017
Collections (Note 1)	-	-
	<u> </u>	<u> </u>
Total Assets	<u>\$ 89,795,081</u>	<u>\$ 82,443,505</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 1,013,548	\$ 678,321
Accrued expenses	434,269	465,186
Debt obligations	5,813,895	5,882,230
	<u> </u>	<u> </u>
Total Liabilities	7,261,712	7,025,737
Net Assets:		
Unrestricted:		
Board designated endowment	51,650,250	47,804,254
Art acquisitions	1,490,635	1,251,733
Support organizations	206,719	158,080
Operating	5,530,320	4,874,491
	<u> </u>	<u> </u>
	58,877,924	54,088,558
Temporarily restricted	12,018,169	10,333,764
Permanently restricted	11,637,276	10,995,446
	<u> </u>	<u> </u>
Total Net Assets	<u>82,533,369</u>	<u>75,417,768</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 89,795,081</u>	<u>\$ 82,443,505</u>

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statement of Activities

Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Support and Investment Activity:				
Revenue and Support:				
City of San Diego	\$ 366,050	\$ -	\$ -	\$ 366,050
County of San Diego	13,000	-	-	13,000
Contributions	2,088,538	1,030,091	446,375	3,565,004
Grants	11,685	-	-	11,685
Memberships	1,033,410	-	-	1,033,410
Support organizations	183,019	-	-	183,019
Admissions	596,916	-	-	596,916
Traveling exhibitions	210,000	-	-	210,000
Concerts	12,701	-	-	12,701
Education	36,471	-	-	36,471
Store sales, \$438,995, less cost of goods sold of \$213,937	225,058	-	-	225,058
Special events	1,201,012	-	-	1,201,012
Miscellaneous	172,680	-	-	172,680
Net assets released from restrictions, satisfaction of program restrictions	625,664	(625,664)	-	-
Total Revenue and Support	6,776,204	404,427	446,375	7,627,006
Investment Activity:				
Interest income	83	-	-	83
Endowment allocation	5,909,557	-	-	5,909,557
Total Investment Activity	5,909,640	-	-	5,909,640
Total Revenue, Support and Investment Activity	12,685,844	404,427	446,375	13,536,646
Expenses:				
Programs	3,848,906	-	-	3,848,906
Program services	4,550,562	-	-	4,550,562
Supporting services	3,484,472	-	-	3,484,472
Total Expenses	11,883,940	-	-	11,883,940
Change in Operations	801,904	404,427	446,375	1,652,706
Other Income (Losses):				
Investment return	8,382,783	2,794,214	195,455	11,372,452
Endowment allocation	(4,395,321)	(1,514,236)	-	(5,909,557)
Total Other Income	3,987,462	1,279,978	195,455	5,462,895
Change in Net Assets	4,789,366	1,684,405	641,830	7,115,601
Net Assets, beginning	54,088,558	10,333,764	10,995,446	75,417,768
Net Assets, ending	\$ 58,877,924	\$ 12,018,169	\$ 11,637,276	\$ 82,533,369

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Statement of Activities

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support and Investment Activity:				
Revenue and Support:				
City of San Diego	\$ 293,691	\$ -	\$ -	\$ 293,691
County of San Diego	60,000	15,000	-	75,000
Contributions	1,801,950	811,517	-	2,613,467
Grants	6,381	-	-	6,381
Memberships	1,151,621	-	-	1,151,621
Support organizations	133,303	-	-	133,303
Admissions	572,485	-	-	572,485
Traveling exhibitions	168,177	-	-	168,177
Concerts	17,901	-	-	17,901
Education	38,578	-	-	38,578
Store sales, \$427,782, less cost of goods sold of \$206,063	221,719	-	-	221,719
Special events	1,115,011	-	-	1,115,011
Miscellaneous	156,426	-	-	156,426
Net assets released from restrictions, satisfaction of program restrictions	939,041	(939,041)	-	-
Total Revenue and Support	6,676,284	(112,524)	-	6,563,760
Investment Activity:				
Interest income	51	-	-	51
Endowment allocation	6,192,948	-	-	6,192,948
Total Investment Activity	6,192,999	-	-	6,192,999
Total Revenue, Support and Investment Activity	12,869,283	(112,524)	-	12,756,759
Expenses:				
Programs	4,598,135	-	-	4,598,135
Program services	4,641,794	-	-	4,641,794
Supporting services	3,988,877	-	-	3,988,877
Total Expenses	13,228,806	-	-	13,228,806
Change in Operations	(359,523)	(112,524)	-	(472,047)
Other Income (Losses):				
Investment return	6,042,999	2,255,640	55,702	8,354,341
Endowment allocation	(4,594,161)	(1,598,787)	-	(6,192,948)
Total Other Income	1,448,838	656,853	55,702	2,161,393
Change in Net Assets	1,089,315	544,329	55,702	1,689,346
Net Assets, beginning	52,999,243	9,789,435	10,939,744	73,728,422
Net Assets, ending	\$ 54,088,558	\$ 10,333,764	\$ 10,995,446	\$ 75,417,768

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART
Statement of Functional Expenses
Year Ended June 30, 2014

	Programs						
	Curatorial	Exhibitions and Collections	Art Acquisitions	Education	Audience Program	Membership	Library
Labor Costs:							
Payroll expenses:							
Wages	\$ 312,609	\$ 474,941	\$ -	\$ 527,424	\$ 121,496	\$ 159,491	\$ 57,036
Payroll taxes	19,675	35,257	-	37,456	9,195	10,488	4,197
Employee benefits	37,651	81,928	-	77,856	25,342	16,128	4,955
Pension benefits	4,472	11,850	-	13,668	3,402	2,719	1,379
Workers' compensation	5,921	6,289	-	7,048	1,730	2,127	631
	380,328	610,265	-	663,452	161,165	190,953	68,198
Temporary labor	299,029	11,079	-	23,589	-	-	-
	679,357	621,344	-	687,041	161,165	190,953	68,198
Other Expenses:							
Advertising	731	25	-	-	-	-	-
Amortization	-	-	-	-	-	-	-
Art Acquisition	-	-	7,875	-	-	-	-
Audio visual	-	-	-	3,268	9,068	555	-
Automobile	815	401	-	3,661	290	-	-
Books	623	-	-	988	453	-	1,451
Cash short (over)	-	-	-	-	-	100	-
Catalogs	173	-	-	60	180	-	-
Catering	855	171	-	8,450	9,168	28,180	-
Conservation and binding	1,265	61,200	-	-	-	-	-
Contract services	136,664	31,564	-	74,733	147,015	5,866	20,426
Credit card charges	-	-	-	-	-	16,261	-
Depreciation	461,664	53,059	-	27,303	27,303	3,362	52,723
Dues and subscriptions	500	85	-	610	-	175	4,455
Equipment	-	245	-	-	-	-	805
Fees	76,758	813,870	-	15,148	112,699	2,142	6,192
Freight	-	69,832	-	-	2,856	-	-
Fundraising	-	-	-	-	-	1,376	-
Graphics	-	27,633	-	-	168	-	-
Income taxes	-	-	-	-	-	-	-
Insurance	74,356	169,778	-	4,397	4,397	542	8,492
Interest	4,257	489	-	252	252	31	486
Legal and audit	-	-	-	-	-	-	-
Marketing	-	-	-	-	3,179	14,731	-
Miscellaneous	-	-	-	-	-	-	-
Photographs and slides	-	7,560	-	-	-	-	396
Postage	2,499	985	-	367	488	15,829	791
Printing	5,794	356	-	7,108	18,351	19,997	177
Property taxes	-	-	-	-	-	-	-
Rentals	6,358	5,563	-	4,837	13,066	3,277	5,553
Repair and maintenance	-	8,707	-	-	-	-	-
Small tools	289	12,116	-	12,508	21,532	2,336	28
Supplies and materials	1,637	46,087	-	55,416	10,290	1,455	2,346
Telephone	3,817	2,537	-	2,537	829	951	951
Travel and seminars	5,847	3,008	-	15,586	2,202	-	231
Utilities	394,784	45,373	-	27,498	23,348	2,875	45,085
	1,179,686	1,360,644	7,875	264,727	407,134	120,041	150,588
Total Expenses	\$ 1,859,043	\$ 1,981,988	\$ 7,875	\$ 951,768	\$ 568,299	\$ 310,994	\$ 218,786
		Total Programs	\$ 3,848,906				

See accompanying notes to financial statements.

Program Services					Supporting Services				Total	2013 Total
Marketing	Support Organizations	Store	Special Events	Visitor Services	Administration	Building and Security	Development			
\$ 147,779	\$ -	\$ 141,409	\$ 175,666	\$ 216,901	\$ 725,285	\$ 561,226	\$ 593,615	\$ 4,214,878	\$ 4,575,009	
9,799	-	10,705	12,348	16,309	49,350	41,578	37,917	294,274	319,273	
12,406	-	24,061	16,731	16,471	66,215	86,816	57,238	523,798	520,943	
2,474	-	3,456	3,153	5,497	23,213	12,764	17,635	105,682	115,174	
2,021	-	1,684	2,230	2,937	9,895	8,561	8,562	59,636	69,892	
174,479	-	181,315	210,128	258,115	873,958	710,945	714,967	5,198,268	5,600,291	
-	-	3,978	5,055	2,135	-	96,527	148	441,540	506,473	
174,479	-	185,293	215,183	260,250	873,958	807,472	715,115	5,639,808	6,106,764	
329,540	16	250	10,139	-	245	100	-	341,046	266,972	
-	-	-	-	-	8,065	-	-	8,065	8,065	
-	-	-	-	-	-	-	-	7,875	367,125	
-	709	-	5,526	150	-	169	1,223	20,668	38,181	
116	236	29	561	20	697	2,410	1,114	10,350	12,724	
-	417	-	13	40	291	-	-	4,276	5,384	
-	-	(100)	-	(40)	-	-	-	(40)	(109)	
212	-	-	38	-	61	-	2,090	2,814	7,697	
120	16,525	22	203,749	314	11,182	82	10,777	289,595	334,504	
-	-	-	-	-	-	-	-	62,465	118,479	
7,067	21,429	1,217	241,543	10,774	164,869	21,869	55,316	940,352	1,071,400	
-	-	9,471	-	21,368	-	-	-	47,100	46,074	
5,044	-	5,044	2,555	5,044	10,827	10,962	7,599	672,489	584,191	
1,092	-	255	-	25	30,996	195	2,366	40,754	47,362	
-	-	-	-	-	32,327	2,425	-	35,802	36,062	
934	14,837	822	55,734	2,873	22,658	9,563	7,912	1,142,142	892,041	
-	-	-	-	-	-	-	-	72,688	412,867	
-	-	-	-	-	-	-	-	1,376	12,760	
328	-	200	-	-	-	-	-	28,329	47,412	
-	-	-	-	-	2,631	-	-	2,631	5,712	
812	-	-	412	1,625	1,744	4,288	1,224	272,067	223,289	
47	-	-	24	93	100	101	70	6,202	9,932	
-	-	-	-	-	88,418	-	-	88,418	98,905	
345,040	-	-	3,700	-	-	-	11,991	378,641	577,364	
-	71,460	-	-	-	-	-	-	71,460	64,303	
-	-	-	9,653	-	-	-	1,210	18,819	25,775	
11,252	385	4,021	802	501	2,017	305	4,654	44,896	61,739	
81,757	3,783	155	1,609	11,148	948	655	25,465	177,303	258,426	
-	-	-	-	-	-	10,242	-	10,242	9,436	
2,262	1,925	6,644	75,357	1,515	4,638	66,804	2,104	199,903	177,104	
-	-	3,785	-	-	13,119	239,847	253	265,711	264,924	
1,016	626	512	1,079	408	1,249	17,063	431	71,193	52,138	
429	3,447	4,076	14,201	2,981	7,371	58,092	7,374	215,202	231,249	
951	-	1,903	1,163	2,240	12,314	6,061	2,467	38,721	41,896	
75	(1,398)	278	224	150	38,778	3,928	6,450	75,359	148,846	
4,313	-	-	2,185	8,626	9,259	9,374	6,498	579,218	561,813	
792,407	134,397	38,584	630,267	69,855	464,804	464,535	158,588	6,244,132	7,122,042	
\$ 966,886	\$ 134,397	\$ 223,877	\$ 845,450	\$ 330,105	\$ 1,338,762	\$ 1,272,007	\$ 873,703	\$ 11,883,940	\$ 13,228,806	
Total Program Services				\$ 4,550,562	Total Supporting Services			\$ 3,484,472		

SAN DIEGO MUSEUM OF ART
Statement of Functional Expenses
Year Ended June 30, 2013

	Programs						
	Curatorial	Exhibits and Collections	Art Acquisitions	Education	Audience Program	Membership	Library
Labor Costs:							
Payroll expenses:							
Wages	\$ 517,065	\$ 462,138	\$ -	\$ 505,566	\$ 121,901	\$ 161,790	\$ 48,383
Payroll taxes	33,156	35,269	-	38,228	8,393	10,813	4,382
Employee benefits	42,468	77,075	-	67,495	11,986	11,622	5,099
Pension benefits	11,039	12,530	-	13,508	3,074	2,964	1,294
Workers' compensation	9,459	6,132	-	7,212	1,277	2,060	728
	613,187	593,144	-	632,009	146,631	189,249	59,886
Temporary labor	317,946	29,724	-	34,486	-	934	10,345
	931,133	622,868	-	666,495	146,631	190,183	70,231
Other Expenses:							
Advertising	779	25	-	-	-	-	-
Amortization	-	-	-	-	-	-	-
Art acquisitions	-	-	367,125	-	-	-	-
Audio visual	2,088	391	-	3,534	13,726	1,355	-
Automobile	661	769	-	2,705	215	77	-
Books	189	198	-	581	722	-	2,440
Cash short (over)	-	-	-	-	-	-	-
Catalogs	3,803	-	-	1,410	11	-	19
Catering	12,146	5,126	-	9,733	13,469	27,883	19
Conservation and binding	-	118,479	-	-	-	-	-
Contract services	44,020	155,848	-	67,338	91,859	9,116	16,602
Credit card charges	-	-	-	-	-	13,637	-
Depreciation	401,049	46,093	-	23,718	23,718	2,921	45,801
Dues and subscriptions	500	195	-	380	-	-	7,332
Equipment	-	-	-	-	314	99	-
Fees	95,199	496,119	-	17,503	164,992	1,801	6,362
Freight	82,335	328,257	-	-	2,275	-	-
Fundraising	-	-	-	-	-	12,760	-
Graphics	-	45,516	-	171	1,725	-	-
Income taxes	-	-	-	-	-	-	-
Insurance	67,817	131,976	-	4,011	4,011	494	7,745
Interest	6,818	784	-	403	403	50	779
Legal and audit	4,511	-	-	-	-	-	-
Marketing	-	-	-	-	1,750	16,523	-
Miscellaneous	-	-	-	-	-	-	-
Photographs and slides	-	15,084	-	-	-	-	92
Postage	5,024	2,631	-	860	501	20,059	852
Printing	36,985	12,151	-	18,818	10,040	25,285	(97)
Property taxes	-	-	-	-	-	-	-
Rentals	7,293	5,384	-	1,677	15,984	4,116	1,220
Repairs and maintenance	-	17,332	-	-	-	-	-
Small tools	124	10,757	-	3,604	12,423	1,723	-
Supplies and materials	2,660	45,661	-	43,407	7,542	1,204	2,346
Telephone	3,522	2,342	-	3,317	510	879	846
Travel and seminars	29,553	3,143	-	21,644	3,446	2,422	-
Utilities	381,792	43,880	-	28,250	22,579	2,781	43,602
	1,188,868	1,488,141	367,125	253,064	392,215	145,185	135,960
Total Expenses	\$ 2,120,001	\$ 2,111,009	\$ 367,125	\$ 919,559	\$ 538,846	\$ 335,368	\$ 206,191
		Total Programs	\$ 4,598,135				

See accompanying notes to financial statements.

Program Services					Supporting Services				
Marketing	Support Organizations	Store	Special Events	Visitor Services	Administration	Building and Security	Development	Total	
\$ 196,597	\$ -	\$ 152,403	\$ 143,796	\$ 213,500	\$ 749,970	\$ 638,278	\$ 663,622	\$ 4,575,009	
13,702	-	11,286	9,857	15,783	47,681	46,996	43,727	319,273	
15,965	-	23,983	14,645	18,612	70,219	95,356	66,418	520,943	
4,059	-	3,390	2,348	4,889	24,825	12,630	18,624	115,174	
2,672	-	2,126	2,000	3,220	11,140	9,966	11,900	69,892	
232,995	-	193,188	172,646	256,004	903,835	803,226	804,291	5,600,291	
1,037	-	-	5,864	414	1,320	97,895	6,508	506,473	
234,032	-	193,188	178,510	256,418	905,155	901,121	810,799	6,106,764	
256,822	706	-	7,289	-	201	-	1,150	266,972	
-	-	-	-	-	8,065	-	-	8,065	
-	-	-	-	-	-	-	-	367,125	
-	865	-	7,518	357	6,203	-	2,144	38,181	
90	10	693	73	68	752	4,875	1,736	12,724	
-	169	-	205	39	455	364	22	5,384	
-	-	(55)	-	(54)	-	-	-	(109)	
14	49	-	-	8	252	-	2,131	7,697	
188	10,239	222	193,561	3,080	24,526	846	33,466	334,504	
-	-	-	-	-	-	-	-	118,479	
8,830	13,436	1,095	207,677	21,042	289,116	49,576	95,845	1,071,400	
-	-	9,714	12	22,711	-	-	-	46,074	
4,381	-	4,381	2,220	4,381	9,405	9,522	6,601	584,191	
1,552	30	505	93	405	31,589	651	4,130	47,362	
1,088	-	-	-	99	32,971	1,309	182	36,062	
3,039	12,264	1,595	49,685	2,509	21,232	10,888	8,853	892,041	
-	-	-	-	-	-	-	-	412,867	
-	-	-	-	-	-	-	-	12,760	
-	-	-	-	-	-	-	-	47,412	
-	-	-	-	-	5,712	-	-	5,712	
741	160	-	375	1,482	1,591	1,610	1,276	223,289	
74	-	-	38	149	160	162	112	9,932	
-	-	-	-	-	94,394	-	-	98,905	
552,423	-	-	-	-	-	-	6,668	577,364	
-	64,303	-	-	-	-	-	-	64,303	
1,004	-	-	5,935	-	18	16	3,626	25,775	
16,858	392	4,105	1,235	729	2,371	631	5,491	61,739	
112,771	3,388	624	4,796	7,455	2,261	766	23,183	258,426	
-	-	-	-	-	-	9,436	-	9,436	
1,220	1,785	7,920	67,221	1,220	4,256	53,472	4,336	177,104	
-	-	3,712	30	-	13,274	229,892	684	264,924	
2,170	-	103	108	1,362	2,105	17,443	216	52,138	
819	2,586	2,420	14,434	4,434	11,586	80,081	12,069	231,249	
864	-	1,677	577	1,984	17,823	4,693	2,862	41,896	
199	9,398	4,467	339	70	36,799	5,384	31,982	148,846	
4,171	-	-	2,113	8,342	8,954	9,065	6,284	561,813	
969,318	119,780	43,178	565,534	81,872	626,071	490,682	255,049	7,122,042	
\$ 1,203,350	\$ 119,780	\$ 236,366	\$ 744,044	\$ 338,290	\$ 1,531,226	\$ 1,391,803	\$ 1,065,848	\$ 13,228,806	
Total Program Services				\$ 4,641,794	Total Supporting Services			\$ 3,988,877	

SAN DIEGO MUSEUM OF ART

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 7,115,601	\$ 1,689,346
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	672,489	584,191
Amortization	8,065	8,065
Net realized and unrealized gains on investments	(11,180,816)	(7,855,302)
Changes in operating assets and liabilities:		
Accounts receivable	77,954	110,550
Pledges receivable	(190,135)	(308,574)
Grants receivable	6,569	78,429
Inventory	(40,707)	4,567
Prepaid expenses	39,537	(48,809)
Accounts payable	335,227	(6,315)
Accrued expenses	(30,917)	29,651
Net Cash Used by Operating Activities	(3,187,133)	(5,714,201)
Cash Flows from Investing Activities:		
Proceeds from sales of investments	5,880,000	2,936,502
Purchases of investments	(551,910)	(5,533,000)
Change in charitable remainder trusts and gift annuities	(171,514)	(37,207)
Purchases of property and equipment	(1,199,166)	(1,323,187)
Net Cash Provided (Used) by Investing Activities	3,957,410	(3,956,892)
Cash Flows from Financing Activities:		
Payments of debt obligations	(68,335)	(68,225)
Proceeds from debt issued	-	153,710
Net Cash Provided (Used) by Financing Activities	(68,335)	85,485
Net Increase (Decrease) in Cash	701,942	(9,585,608)
Cash, beginning	279,401	9,865,009
Cash, ending	\$ <u>981,343</u>	\$ <u>279,401</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ <u>6,202</u>	\$ <u>9,932</u>

See accompanying notes to financial statements.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

San Diego Museum of Art (Museum) is a California nonprofit corporation formed in 1925. The Museum's purpose is to promote artistic interests, operate a museum and related facilities, maintain collections of art and assist in the education and entertainment of those interested in art. The Museum's support and revenue comes primarily from memberships, contributions, admissions and investment returns.

Financial Statement Presentation

The Museum reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Museum may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts and Grants Receivable

Accounts and grants receivable consist primarily of amounts due in less than one year from the City of San Diego, other museums and miscellaneous other small amounts. Because of the nature of the Museum's revenues and collection history, no allowance for doubtful accounts is deemed necessary at June 30, 2014 and 2013.

Pledges Receivable

Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are discounted to their estimated net present value. After pledges are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances.

Inventory

Inventory consists primarily of books and catalogs for resale and is valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment

The Museum capitalizes all expenditures for property and equipment in excess of \$2,500. Equipment and improvements are recorded at cost or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of five to 57 years.

Deferred Charges

Bond issuance costs and the bond underwriter's discount are capitalized and amortized using the straight-line method over the term of the bonds.

Charitable Remainder Trusts

Charitable remainder trusts are trusts established in connection with split-interest agreements, in which the donors or third-party beneficiaries receive specified distributions during the term of the agreements. Remainder trusts are recorded at net present value which approximates market value. Upon termination of the trusts, the Museum receives the assets remaining in the trusts.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Charitable Gift Annuities

All gift annuities are managed by local banks in accordance with a Trust Agreement. The gift annuity agreements are negotiated between the Museum and the donor/annuitant and are based on the rate tables approved by the California Insurance Commissioner for gift annuity agreements. Annuities are recorded at net present value which approximates market value.

The Museum does not allow distributions, except to cover expenditures payable to the annuitant and necessary administrative expenses of the fund, until the annuity matures.

Investments

The Museum carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. The fair value is determined using quoted market prices. Alternative investments, for which quoted market prices are not readily available, are valued at fair value by the investment manager based on factors deemed relevant by the manager including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer and meaningful third party transactions in the private market. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Investment return on restricted assets is reported as an increase in unrestricted net assets if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Collections

The Museum maintains collections of art that are significant in relation to its total assets. Collection items acquired either through purchase or donation are not capitalized or recognized as revenues or gains provided that such donations are added to collections and are held for public exhibition, education, or research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor-restricted assets. Proceeds from deaccessions or insurance recoveries are reflected in the statements of activities based on the absence or existence and nature of donor-imposed restrictions. The Museum employs curators to ensure that the collections are protected and preserved.

Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a 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 statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

Contributions

Many individuals volunteer their time and perform a variety of tasks that assist the Museum with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. Contributions of noncash assets, except for works of art, are recorded at their fair values in the period received.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Advertising

The Museum follows the policy of charging the costs of advertising to expense as incurred.

Income Tax Status

The Museum is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Museum remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose.

The Museum follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Museum recognizes accrued interest and penalties associated with uncertain tax positions as part of the statement of activities, when applicable. Management has determined that the Museum has no uncertain tax positions at June 30, 2014 and 2013 and therefore no amounts have been accrued.

The Museum files informational and income tax returns in the United States, California, and in local jurisdictions. With few exceptions, the Museum's federal income tax returns for the years prior to 2010 are closed. State and local jurisdictions have statutes of limitations that generally range from three to five years.

Fair Value Measurements

The Museum defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Museum applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. In addition, the Museum reports certain investments using the net asset value per share as determined by investment managers, allowing the net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, other current assets, and payables approximate fair values as of June 30, 2014 and 2013, due to the relative short maturities of these instruments.

Subsequent Events

The Museum has evaluated subsequent events through November 24, 2014, which is the date the financial statements were available to be issued.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 2 – Investments

The fair market value of investments is categorized as follows for the year ended June 30, 2014:

Description	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,074,246	\$ -	\$ -	\$ 2,074,246
Mutual funds:				
Large cap – domestic	23,007,374	-	-	23,007,374
Large cap – international developed	-	11,801,098	-	11,801,098
Large cap – emerging markets	3,417,997	-	-	3,417,997
Mid cap – domestic	-	4,138,640	-	4,138,640
Small cap – domestic	2,282,014	1,631,665	-	3,913,679
Fixed income – domestic	13,346,788	-	-	13,346,788
Fixed income – international	5,174,175	-	-	5,174,175
Equity securities:				
Large cap – domestic	484,557	-	-	484,557
Large cap – international developed	337,327	-	-	337,327
Large cap - emerging markets	118,584	-	-	118,584
Mid cap – domestic	75,916	-	-	75,916
Small cap – domestic	29,109	-	-	29,109
Alternative investments:				
Absolute return hedge funds	-	-	5,612,511	5,612,511
Private equity funds	-	-	6,458,857	6,458,857
Beneficial interest in assets held at the San Diego Foundation	-	-	882,435	882,435
	<u>\$ 50,348,087</u>	<u>\$ 17,571,403</u>	<u>\$ 12,953,803</u>	<u>\$ 80,873,293</u>

Level 2 investments are valued once a month and their values are reported at that value. Level 3 investments are valued based on the reported market values by the management of the funds held.

Changes in the fair value of level 3 investments for the year ended June 30, 2014 are as follows:

	Absolute return hedge funds	Private equity funds	Beneficial interests in assets held at the San Diego Foundation	Total
Fair value, beginning	\$ 5,115,318	\$ 6,077,393	\$ 801,285	\$ 11,993,996
Transfers	-	(147,946)	-	(147,946)
Distributions	-	(22,059)	(38,143)	(60,202)
Investment expenses	-	(13,061)	(4,265)	(17,326)
Investment gains	497,193	564,530	123,558	1,185,281
Fair value, ending	<u>\$ 5,612,511</u>	<u>\$ 6,458,857</u>	<u>\$ 882,435</u>	<u>\$ 12,953,803</u>

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 2 – Investments, continued

Commitments and redemption schedules for those investments valued based on net asset values are as follows:

Description	Fair value at June 30, 2014	Unfunded commitments	Redemption frequency	Redemption notice period
Mutual funds [a]:				
Large cap – international developed	\$ 11,801,098	none	monthly	10 – 30 days
Mid cap – domestic	4,138,640	none	monthly	7 days
Small cap – domestic	1,631,665	none	quarterly	30 days
Absolute return hedge funds [b]	5,612,511	none	quarterly	90 – 95 days
Private equity funds [c]	6,458,857	3,025,498	not allowed	n/a

[a] Mutual funds represent investments in publically traded companies, using various strategies as identified above.

[b] Absolute return hedge funds are considered to be investments in fund of funds. These investments employ a variety of strategies including absolute return, various long/short strategies, and credit funds of which \$3,852,092 is subject to a one year lockup period.

[c] Private equity funds are invested in funds organized as limited partnerships which invest in real estate, mezzanine capital, secondaries, investments in distressed securities, and buyouts.

The fair market value of investments is categorized as follows for the year ended June 30, 2013:

Description	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,851,223	\$ -	\$ -	\$ 1,851,223
Mutual funds:				
Large cap – domestic	17,414,175	-	-	17,414,175
Large cap – international developed	-	11,393,560	-	11,393,560
Large cap – emerging markets	1,862,244	-	-	1,862,244
Mid cap – domestic	-	3,888,363	-	3,888,363
Mid cap – emerging markets	1,734,801	-	-	1,734,801
Small cap – domestic	-	1,493,614	-	1,493,614
Fixed income – domestic	12,358,968	-	-	12,358,968
Fixed income – international	1,840,786	-	-	1,840,786
Equity securities:				
Large cap – domestic	6,413,914	-	-	6,413,914
Large cap – international developed	153,464	-	-	153,464
Large cap – emerging markets	132,561	-	-	132,561
Mid cap – domestic	65,746	-	-	65,746
Small cap – domestic	2,251,638	-	-	2,251,638
Alternative investments:				
Absolute return hedge funds	-	-	5,115,318	5,115,318
Private equity funds	-	-	6,077,393	6,077,393
Beneficial interest in assets held at the San Diego Foundation	-	-	801,285	801,285
	<u>\$ 46,079,520</u>	<u>\$ 16,775,537</u>	<u>\$ 11,993,996</u>	<u>\$ 74,849,053</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2014 and 2013

Note 2 – Investments, continued

Changes in the fair value of level 3 investments for the year ended June 30, 2013 are as follows:

	Absolute return hedge funds	Private equity funds	Beneficial interests in assets held at the San Diego Foundation	Total
Fair value, beginning	\$ 4,611,735	\$ 5,533,024	\$ 764,793	\$ 10,909,552
Transfers	-	(36,283)	-	(36,283)
Distributions	-	(1,070)	(33,761)	(34,831)
Investment expenses	-	(34,926)	(4,048)	(38,974)
Investment gains	503,583	616,648	74,301	1,194,532
Fair value, ending	<u>\$ 5,115,318</u>	<u>\$ 6,077,393</u>	<u>\$ 801,285</u>	<u>\$ 11,993,996</u>

Commitments and redemption schedules for those investments valued based on net asset values are as follows:

Description	Fair value at June 30, 2013	Unfunded commitments	Redemption frequency	Redemption notice period
Mutual funds [a]:				
Large cap – international developed	\$ 11,393,560	none	monthly	10 – 30 days
Mid cap – domestic	3,888,363	none	monthly	7 days
Small cap – domestic	1,493,614	none	quarterly	30 days
Absolute return hedge funds [b]	5,115,318	none	quarterly	90 – 95 days
Private equity funds [c]	6,077,393	4,546,926	not allowed	n/a

[a] Mutual funds represent investments in publically traded companies, using various strategies as identified above.

[b] Absolute return hedge funds are considered to be investments in fund of funds. These investments employ a variety of strategies including absolute return, various long/short strategies, and credit funds of which \$3,493,304 is subject to a one year lockup period.

[c] Private equity funds are invested in funds organized as limited partnerships which invest in real estate, mezzanine capital, secondaries, investments in distressed securities, and buyouts.

SAN DIEGO MUSEUM OF ART**Notes to Financial Statements**

Years Ended June 30, 2014 and 2013

Note 2 – Investments, continued

The following schedules summarize the investment return and its classification:

	June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 316,871	\$ 98,767	\$ -	\$ 415,638
Investment expenses	(313,512)	(103,347)	-	(416,859)
Net realized gains	178,300	59,377	-	237,677
Net unrealized gains	8,201,124	2,742,015	-	10,943,139
Change in charitable remainder trusts	-	(2,598)	195,455	192,857
Investment return	<u>\$ 8,382,783</u>	<u>\$ 2,794,214</u>	<u>\$ 195,455</u>	<u>\$ 11,372,452</u>

	June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 611,562	\$ 201,101	\$ -	\$ 812,663
Investment expenses	(267,493)	(98,211)	-	(365,704)
Net realized gains	329,926	121,802	-	451,728
Net unrealized gains	5,369,004	2,034,570	-	7,403,574
Change in charitable remainder trusts	-	(3,622)	55,702	52,080
Investment return	<u>\$ 6,042,999</u>	<u>\$ 2,255,640</u>	<u>\$ 55,702</u>	<u>\$ 8,354,341</u>

Note 3 – Pledges Receivable

Pledges receivable consist of the following:

	2014	2013
Due in one year or less	\$ 557,667	\$ 413,699
Due after one year through five years	<u>46,167</u>	<u>-</u>
	<u>\$ 603,834</u>	<u>\$ 413,699</u>

No allowance was considered necessary at June 30, 2014 and 2013 because management believes that all amounts are collectible. No discount was imputed because management determined the amounts to be insignificant.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 4 – Property and Equipment

The Museum buildings constructed with Museum funds have been gifted to the City of San Diego. Other improvements to the real property by the Museum will revert to the City of San Diego at the termination of the lease agreement (Note 5). Improvements made and assets owned by the Museum are as follows:

	<u>2014</u>	<u>2013</u>
Building and improvements	\$ 14,935,538	\$ 14,126,267
Furniture, fixtures and equipment	361,104	369,353
Construction in progress	<u>411,798</u>	<u>92,989</u>
	15,708,440	14,588,609
Less accumulated depreciation	<u>(9,000,328)</u>	<u>(8,407,174)</u>
	<u>\$ 6,708,112</u>	<u>\$ 6,181,435</u>

Note 5 – Leases

The Museum leases real property located in Balboa Park from the City of San Diego. The lease term is 25 years commencing March 1, 1990 with an option to extend an additional 25 years at the Museum's option, and provides for renegotiation of lease provisions every five years. Renegotiation affects alterations in the terms and conditions of the lease solely to reflect any significant changes which have occurred during the interim period and shall not increase the consideration, terminate the lease, or shorten the term. Consideration for the lease is the Museum's agreement to operate an art museum and related services for the benefit of the general public. No amounts have been reflected in the financial statements for the use of the real property as no objective basis is available to measure the relative value. On September 18, 2014, the option to extend the lease was executed. The new lease expires February 28, 2040 and retains the same terms.

Note 6 – Debt Obligations

The Museum issued \$6,000,000 of variable rate demand certificates of participation through the County of San Diego. The purpose of the issue was to fund the remodeling of the Museum's office facilities and the renovation of the museum building. Payments of principal and interest with respect to the certificates are supported by an irrevocable direct-pay letter of credit issued by Wells Fargo Bank. The interest rate on the issue was 0.10% and 0.12% at June 30, 2014 and 2013, respectively. The principal is due in full on September 1, 2030. As of June 30, 2014, the Museum has made voluntary early principal payments of \$300,000.

The Museum entered into four loan agreements with San Diego Gas & Electric Company (SDG&E) to provide contracted services to replace and upgrade lighting and mechanical fixtures. The loans are payable in monthly installments through May 2016. All loan agreements were paid in full as of July 31, 2014.

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 6 – Debt Obligations, continued

Principal payments on debt obligations at June 30, 2014 are due as follows:

Year Ending June 30		
2015	\$	113,895
2016		-
2017		-
2018		-
2019		-
Thereafter		<u>5,700,000</u>
Total	\$	<u><u>5,813,895</u></u>

Note 7 – Restrictions on Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Art acquisitions	\$ 96,944	\$ 96,944
Charitable remainder trusts and gift annuities	377	24,320
Education	369,074	559,039
Exhibits	761,066	51,181
Other special projects	179,562	295,054
Unappropriated endowment earnings	<u>10,611,146</u>	<u>9,307,226</u>
	<u>\$ 12,018,169</u>	<u>\$ 10,333,764</u>

Note 8 – Employee Retirement Plan

The Museum sponsors a tax deferred annuity plan (the Plan) that qualifies under Section 403(b) of the Internal Revenue Code and covers substantially all employees. On behalf of each eligible employee, the Plan allows the Museum to contribute 3.5% of compensation. For the years ended June 30, 2014 and 2013, the Museum contributed \$105,682 and \$115,174, respectively.

Note 9 – Endowments

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

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 9 – Endowments, continued

The Board of Trustees of the Museum has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift 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 Museum in a manner that is consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

At June 30, 2014, the endowment net assets composition by type of fund consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,611,146	\$ 9,032,101	\$ 19,643,247
Charitable remainder trust assets to be included in endowment	-	-	2,605,175	2,605,175
Board-designated endowment funds	<u>51,650,250</u>	<u>-</u>	<u>-</u>	<u>51,650,250</u>
Total endowment funds	<u>\$ 51,650,250</u>	<u>\$ 10,611,146</u>	<u>\$ 11,637,276</u>	<u>\$ 73,898,672</u>

At June 30, 2013, the endowment net assets composition by type of fund consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 9,307,226	\$ 8,585,726	\$ 17,892,952
Charitable remainder trust assets to be included in endowment	-	-	2,409,720	2,409,720
Board-designated endowment funds	<u>47,804,254</u>	<u>-</u>	<u>-</u>	<u>47,804,254</u>
Total endowment funds	<u>\$ 47,804,254</u>	<u>\$ 9,307,226</u>	<u>\$ 10,995,446</u>	<u>\$ 68,106,926</u>

SAN DIEGO MUSEUM OF ART
Notes to Financial Statements
Years Ended June 30, 2014 and 2013

Note 9 – Endowments, continued

Changes in endowment net assets for the year ended June 30, 2014 consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 47,804,254	\$ 9,307,226	\$ 10,995,446	\$ 68,106,926
Donations	105,535	-	446,375	551,910
Investment return:				
Investment income	321,191	103,340	-	424,531
Investment expenses	(313,512)	(82,003)	-	(395,515)
Net realized and unrealized gains	8,128,103	2,796,819	-	10,924,922
Change in charitable remainder trust assets	-	-	195,455	195,455
Total investment return	<u>8,135,782</u>	<u>2,818,156</u>	<u>195,455</u>	<u>11,149,393</u>
Appropriation of endowment assets for expenditure	<u>(4,395,321)</u>	<u>(1,514,236)</u>	<u>-</u>	<u>(5,909,557)</u>
Endowment net assets, end of year	<u>\$ 51,650,250</u>	<u>\$ 10,611,146</u>	<u>\$ 11,637,276</u>	<u>\$ 73,898,672</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 41,563,937	\$ 8,646,753	\$ 10,939,744	\$ 61,150,434
Investment return:				
Investment income	768,076	354,216	-	1,122,292
Investment expenses	(267,493)	(106,004)	-	(373,497)
Net realized and unrealized gains	10,333,895	2,011,048	-	12,344,943
Change in charitable remainder trust assets	-	-	55,702	55,702
Total investment return	<u>10,834,478</u>	<u>2,259,260</u>	<u>55,702</u>	<u>13,149,440</u>
Appropriation of endowment assets for expenditure	<u>(4,594,161)</u>	<u>(1,598,787)</u>	<u>-</u>	<u>(6,192,948)</u>
Endowment net assets, end of year	<u>\$ 47,804,254</u>	<u>\$ 9,307,226</u>	<u>\$ 10,995,446</u>	<u>\$ 68,106,926</u>

SAN DIEGO MUSEUM OF ART

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note 9 – Endowments, continued

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide funding for the operating expenses of programs supported by its endowments and increase the value of the original contributed capital by an amount not less than the annual increase in the Consumer Price Index (CPI). In order to meet this objective, the endowment asset portfolio is structured to achieve a compounded annual return, net of investment management expenses, of 6% plus the annual rate of inflation (Target Return) over ten years. In achieving the Target Return, the Museum seeks to maintain a level of portfolio risk, as measured by the annualized monthly standard deviation, commensurate with the portfolio's market-related index. The market-related index is made up of selected market indices that are representative of the asset classes in which the portfolio is invested and which is weighted in the same percentages as the asset classes in which the portfolio is invested.

Investment Strategy

The investment strategy of the Museum is to develop a diversified portfolio of investments. For equity investments, the selection of such holdings is based on the merits of long-term ownership without the intent of short-term trading. To achieve the Target Return, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy

Each year, the Museum appropriates a portion of the fair market value of endowment assets for distribution. The portion of the fair market value appropriated for the years ended June 30, 2014 and 2013 was 5.00% and 5.25%, respectively. Market value, for the purpose of calculating the spending policy, is based on the trailing twenty quarter average of the market value of the endowment assets as of December 31st of each year. The Board of Trustees may, upon recommendation of the Finance Committee, in response to changes in economic circumstances, raise or lower the percentage to be distributed in any given year.

Note 10 – Concentration of Credit Risk

The Museum maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per financial institution. The Museum maintains cash balances at several banks which, at times, exceed the federal insurable limit. As of June 30, 2014 and 2013, the Museum's uninsured cash balance was \$496,862 and \$735,401, respectively.

Note 11 – Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 12 – Reclassifications

Certain items in the 2013 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

SUPPLEMENTAL INFORMATION

SAN DIEGO MUSEUM OF ART

Schedule of Contributions

Years Ended June 30, 2014 and 2013

	June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Individual gifts	\$ 1,574,058	\$ 592,236	\$ 446,375	\$ 2,612,669
Corporate support	209,390	78,334	-	287,724
Trustee support	129,384	38,100	-	167,484
Foundations	173,076	321,421	-	494,497
Contribution box	2,630	-	-	2,630
	<u>\$ 2,088,538</u>	<u>\$ 1,030,091</u>	<u>\$ 446,375</u>	<u>\$ 3,565,004</u>

	June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Individual gifts	\$ 986,893	\$ 28,157	\$ -	\$ 1,015,050
Corporate support	320,593	-	-	320,593
Trustee support	195,220	160,232	-	355,452
Foundations	297,627	623,128	-	920,755
Contribution box	1,617	-	-	1,617
	<u>\$ 1,801,950</u>	<u>\$ 811,517</u>	<u>\$ -</u>	<u>\$ 2,613,467</u>