

**COLORADO SPRINGS FINE ARTS CENTER**

**Financial Statements**

**For the Year Ended August 31, 2010**

**And**

**Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Colorado Springs Fine Arts Center

We have audited the accompanying balance sheet of Colorado Springs Fine Arts Center (Fine Arts Center) as of August 31, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Fine Arts Center's 2009 financial statements and, in our report dated December 30, 2009 on those statements, we expressed a qualified opinion due to the Fine Arts Center not presenting combined financial statements with the Colorado Springs Fine Arts Center Foundation (Foundation). As described in the third paragraph below, accounting principles generally accepted in the United States of America require the Fine Arts Center to prepare combined financial statements with the Foundation.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Fine Arts Center is financially interrelated with the Foundation. Accounting principles generally accepted in the United States of America require the Fine Arts Center to prepare combined financial statements with the Foundation as a result of the Fine Arts Center's control over the Foundation and economic interest in the Foundation. The Fine Arts Center does not present its financial statements combined with the Foundation. If combined financial statements were presented at August 31, 2010, total assets and net assets would each increase by \$11,875,945, total revenue would decrease by \$110,830 and total expenses would increase by \$46,153.

In our opinion, except for the effect of not presenting combined financial information with the Foundation as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Fine Arts Center as of August 31, 2010 and the change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Stockman Kast Ryan + Co, LLP*  
December 20, 2010

# COLORADO SPRINGS FINE ARTS CENTER

## BALANCE SHEET

**AUGUST 31, 2010 (with comparative totals for 2009)**

---

	2010	2009
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 79,779	\$ 25,364
Accounts receivable, net	51,483	8,442
Current portion of pledges receivable, net	997,332	1,013,507
Investments, at fair value	39	19,545
Inventories	11,848	88,199
Prepaid expenses	<u>144,068</u>	<u>90,766</u>
Total	1,284,549	1,245,823
PLEDGES RECEIVABLE, NET	457,987	1,478,791
INVESTMENTS, AT FAIR VALUE	784,692	1,153,730
INVESTMENTS HELD FOR DEBT SERVICE	9,757,106	9,802,090
PROPERTY AND EQUIPMENT, NET	28,244,278	29,750,560
BOND ISSUANCE COSTS	94,218	102,849
ART COLLECTION	<u>                    </u>	<u>                    </u>
TOTAL	<u>\$ 40,622,830</u>	<u>\$ 43,533,843</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts payable	\$ 139,973	\$ 69,768
Accrued expenses	86,952	43,147
Fair value of swap agreements	575,982	86,201
Deferred revenue	395,774	308,734
Line of credit	179,650	750,000
Current portion of demand development revenue bonds payable	960,000	920,000
Current portion of capital lease payable	<u>74,016</u>	<u>69,785</u>
Total	2,412,347	2,247,635
DEMAND DEVELOPMENT REVENUE BONDS PAYABLE	12,185,875	13,141,375
CAPITAL LEASE PAYABLE	<u>25,655</u>	<u>99,671</u>
TOTAL	<u>14,623,877</u>	<u>15,488,681</u>
NET ASSETS		
Unrestricted	23,743,146	24,399,134
Temporarily restricted	1,596,931	2,987,152
Permanently restricted	<u>658,876</u>	<u>658,876</u>
Total	<u>25,998,953</u>	<u>28,045,162</u>
TOTAL	<u>\$ 40,622,830</u>	<u>\$ 43,533,843</u>

See notes to financial statements.

---

# COLORADO SPRINGS FINE ARTS CENTER

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2010 (with comparative totals for 2009)

	2010			Total	2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>SUPPORT AND REVENUE</b>					
Program revenue	\$ 1,503,134			\$ 1,503,134	\$ 1,102,556
Gifts and grants	873,472	\$ 624,905		1,498,377	1,208,624
Contributions from Foundation	851,454			851,454	913,106
Membership dues	254,915			254,915	238,084
Events	210,124			210,124	140,875
Auxiliary activities	163,826			163,826	192,922
Gifts of art	115,557			115,557	280,400
Investment income (loss)	(49,820)			(49,820)	124,508
Gift shop sales (net of cost of sales of \$76,040 and \$62,422 in 2010 and 2009, respectively)	(45,418)			(45,418)	(62,422)
Net assets released from restrictions:					
Satisfaction of purpose restrictions	41,312	(41,312)			
Satisfaction of time restrictions	1,636,878	(1,636,878)			
Reclassification of net asset balances	<u>336,936</u>	<u>(336,936)</u>			
<b>Total</b>	<u>5,892,370</u>	<u>(1,390,221)</u>	<u>\$ —</u>	<u>4,502,149</u>	<u>4,138,653</u>
<b>EXPENSES</b>					
Program services:					
Performing arts	766,292			766,292	784,851
Museum	356,574			356,574	555,057
Bemis Art School	344,178			344,178	332,767
Acquisitions – gifts of art	115,557			115,557	280,400
Events	74,498			74,498	89,369
Accession of art for collection	31,950			31,950	37,580
Support services:					
Premises	2,403,534			2,403,534	2,475,957
Financing	794,507			794,507	385,730
Management and general	707,439			707,439	740,140
Fund raising	566,317			566,317	218,982
Public relations	314,514			314,514	349,064
Auxiliary	<u>72,998</u>			<u>72,998</u>	<u>152,444</u>
<b>Total</b>	<u>6,548,358</u>	<u>—</u>	<u>—</u>	<u>6,548,358</u>	<u>6,402,341</u>
<b>CHANGE IN NET ASSETS</b>	(655,988)	(1,390,221)	—	(2,046,209)	(2,263,688)
<b>NET ASSETS, Beginning of year</b>	<u>24,399,134</u>	<u>2,987,152</u>	<u>658,876</u>	<u>28,045,162</u>	<u>30,308,850</u>
<b>NET ASSETS, End of year</b>	<u>\$ 23,743,146</u>	<u>\$ 1,596,931</u>	<u>\$ 658,876</u>	<u>\$ 25,998,953</u>	<u>\$ 28,045,162</u>

See notes to financial statements.

# COLORADO SPRINGS FINE ARTS CENTER

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED AUGUST 31, 2010 (with comparative totals for 2009)

---

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (2,046,209)	\$ (2,263,688)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized investment losses	378,951	217,148
Depreciation and amortization	1,529,460	1,528,069
Loss on interest rate swap	489,781	86,201
Contributions restricted for long-term purposes	223,768	(82,522)
Accession of art for collection	31,950	37,580
Changes in operating assets and liabilities:		
Accounts receivable	(43,041)	15,762
Pledges receivable, net	(261,680)	(52,004)
Inventories	76,351	62,383
Prepaid expenses	(53,296)	94,395
Accounts payable and accrued expenses	114,010	(157,545)
Deferred revenue	<u>87,040</u>	<u>17,460</u>
Net cash provided by (used in) operating activities	<u>527,085</u>	<u>(496,761)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of art objects	(31,950)	(37,580)
Purchases of property and equipment	(10,047)	(33,615)
Purchases of investments	(7,620,505)	(7,954,645)
Proceeds from sales of investments	<u>7,675,082</u>	<u>8,041,308</u>
Net cash provided by investing activities	<u>12,580</u>	<u>15,468</u>
<b>FINANCING ACTIVITIES</b>		
Net payments on line of credit	(570,350)	
Net proceeds from line of credit		125,000
Payments on bonds payable	(920,000)	(885,000)
Payments on capital lease	(69,785)	(65,797)
Collection of contributions restricted for:		
Investment in property and equipment	<u>1,074,885</u>	<u>1,264,773</u>
Net cash provided by (used in) financing activities	<u>(485,250)</u>	<u>438,976</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	54,415	(42,317)
CASH, Beginning of year	<u>25,364</u>	<u>67,681</u>
CASH, End of year	<u>\$ 79,779</u>	<u>\$ 25,364</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 174,868</u>	<u>\$ 280,058</u>

See notes to financial statements.

---

# COLORADO SPRINGS FINE ARTS CENTER

## NOTES TO FINANCIAL STATEMENTS

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Colorado Springs Fine Arts Center (Fine Arts Center) was organized to preserve and exhibit collections of objects of art of all kinds, and to provide art instruction and entertainment.

**Basis of Presentation** — The accompanying financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2009, from which the summarized information was derived.

The Fine Arts Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

**Contributions** — Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Fine Arts Center reports gifts of furnishings and equipment as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire furnishings and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Fine Arts Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Fine Arts Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Investments** — Investments are carried at fair value. U.S. government obligations, municipal obligations and corporate obligations are priced by the asset custodian based on quoted prices for identical or similar assets in inactive markets. Common stock, equity mutual fund, and money market accounts are valued based on quoted prices in active markets. Certificates of deposit are valued at cost which approximate fair value. Realized and unrealized gains and losses are reflected in the statement of activities.

Earnings on restricted investments are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the earnings are recognized. All other earnings on donor restricted investments are recognized as an increase in temporarily restricted net assets according to the nature of the restrictions on the original gift. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Donated Services** — The Fine Arts Center recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by persons possessing those skills and would typically need to be purchased if not provided by donation. During the years ended August 31, 2010 and 2009, a substantial number of volunteers donated time to the organization's program services and its fund raising activities; however, the estimated value was not recorded, because they did not meet the criteria described above.

**Cash and Cash Equivalents** — For purposes of the statement of cash flows, the Fine Arts Center considers all highly liquid investments maturing within three months of their acquisition to be cash equivalents, if not restricted by contributors or designated by the board for long-term investment. Highly liquid investments restricted by contributors or designated by the board for long-term investment are classified as investments.

**Accounts Receivable** — Accounts receivable are stated at the invoice amount. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable are recorded net of an allowance for uncollectible accounts of \$1,956 and \$2,305 as of August 31, 2010 and 2009, respectively.

**Pledges Receivable** — Unconditional promises to give are recognized as support and assets in the period received. Promises to give are recorded at net realizable value if expected to be collected within one year and at the present value of estimated future cash flows if expected to be collected in more than one year. The discounts on these amounts are computed using a risk-free interest rate applicable to the year (4.5% in 2010) in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Inventories** — Inventory is recorded at the lower of first-in, first-out (FIFO) cost or fair market value.

**Property and Equipment** — All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are recorded at cost or at fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from seven to forty years for buildings and improvements and from three to ten years for furnishings and equipment.

**Deferred Revenue** — Membership dues and advance ticket sales for future theater productions and other events are deferred and recognized during the periods which the dues and ticket sales relate.

**Tax Status** — The Fine Arts Center is a not-for-profit corporation which is classified as a public charity by the Internal Revenue Service, and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management of the Fine Arts Center believes that it does not have any uncertain tax positions that are material to the financial statements.

**Use of Estimates** — Preparation of the Fine Arts Center’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Actual results could differ from those estimates.

**Derivative Instruments** — In order to reduce the risk to volatility in interest rates relative to its variable rate bonds payable, the Fine Arts Center entered into two interest rate swap agreements. Changes to the fair value of the interest rate swap agreements are accounted for as increases or decreases in financing expense.

**Subsequent Events** — The Fine Arts Center has evaluated subsequent events for recognition or disclosure through December 20, 2010, the date the financial statements were available for issuance.

## 2. AFFILIATED ORGANIZATION

The Fine Arts Center’s Board of Trustees established a separate corporation known as the Colorado Springs Fine Arts Center Foundation (Foundation) and in 1996 transferred to the Foundation a significant portion of the Fine Arts Center’s investments, subject to any restrictions associated with the original gift. The charter documents of the Foundation require that income and net assets of the Foundation be used solely to benefit the Fine Arts Center. The Board of Directors of the Foundation are elected by the Board of Trustees of the Fine Arts Center and the Fine Arts Center Board may remove Directors of the Foundation, thereby giving the Fine Arts Center control of the Foundation. As a result of the Fine Arts Center’s control over the Foundation and economic interest in the Foundation, generally accepted accounting principles require the Fine Arts Center to present combined financial statements with the Foundation. The Fine Arts Center does not present its financial statements combined with the Foundation because management believes separate statements are more useful to readers. Following are condensed financial statements (derived from audited financial statements) of the Foundation as of August 31, 2010 and 2009 and for the years then ended.

### Condensed Balance Sheet

	2010	2009
ASSETS		
Investments, at fair value	<u>\$ 11,875,945</u>	<u>\$ 12,032,928</u>
NET ASSETS		
Unrestricted		
Temporarily restricted	\$ 8,710,432	\$ 8,867,415
Permanently restricted	<u>3,165,513</u>	<u>3,165,513</u>
Total	<u>\$ 11,875,945</u>	<u>\$ 12,032,928</u>

### Condensed Statement of Activities

	2010			2009 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b>REVENUE</b>					
Investment income		\$ 740,624		\$ 740,624	\$ (1,588,541)
Net assets released from restrictions	<u>\$ 897,607</u>	<u>(897,607)</u>			
Total	<u>897,607</u>	<u>(156,983)</u>	<u>\$ —</u>	<u>740,624</u>	<u>(1,588,541)</u>
<b>EXPENSES</b>					
Contributions to the Fine Arts Center	851,454			851,454	913,106
Other	<u>46,153</u>			<u>46,153</u>	<u>50,894</u>
Total	<u>897,607</u>	<u>—</u>	<u>—</u>	<u>897,607</u>	<u>964,000</u>
Change in net assets	—	(156,983)		(156,983)	(2,552,541)
NET ASSETS, Beginning of period	<u>—</u>	<u>8,867,415</u>	<u>3,165,513</u>	<u>12,032,928</u>	<u>14,585,469</u>
NET ASSETS, End of period	<u>\$ —</u>	<u>\$ 8,710,432</u>	<u>\$ 3,165,513</u>	<u>\$ 11,875,945</u>	<u>\$ 12,032,928</u>

### 3. INVESTMENTS

The nature of and carrying amount of each group of investments are as follows as of August 31:

	2010	2009
Corporate obligations	\$ 6,467,758	\$ 3,562,128
Common stock	1,288,868	
Money market accounts	843,385	3,343,465
Equity mutual funds	820,804	
Government agency obligations	520,495	501,405
Certificates of deposit	500,527	753,367
Municipal obligations	<u>100,000</u>	<u>2,815,000</u>
Total	<u>\$ 10,541,837</u>	<u>\$ 10,975,365</u>
Investments held for debt service	\$ 9,757,106	\$ 9,802,090
Temporarily restricted	141,606	514,599
Permanently restricted	643,086	639,131
Unrestricted	<u>39</u>	<u>19,545</u>
Total	<u>\$ 10,541,837</u>	<u>\$ 10,975,365</u>

The Fine Arts Center classifies unrestricted investments as current assets and temporarily and permanently restricted as non-current assets in the accompanying financial statements.

Restricted investments are held as collateral for the Fine Arts Center's letter of credit (see Note 7).

Investment income consisted of the following for the years ended August 31:

	<b>2010</b>	<b>2009</b>
Interest and dividend income	\$ 329,131	\$ 341,656
Realized and unrealized investment gains (losses)	<u>(378,951)</u>	<u>(217,148)</u>
Total	<u>\$ (49,820)</u>	<u>\$ 124,508</u>

#### **4. FAIR VALUE MEASUREMENTS**

The Fine Arts Center is subject to the provisions of the *Fair Value Measurements* accounting standard which 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2: Prices determined using significant other observable inputs. 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.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The investment'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.

The following table sets forth by level, within the fair value hierarchy, the Fine Arts Center's financial instruments at fair value as of August 31, 2010 and 2009:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>2010:</b>				
<b>ASSETS</b>				
Corporate obligations	\$ 6,467,758		\$ 6,467,758	
Common stocks	1,288,868	\$ 1,288,868		
Money market accounts	843,385	843,385		
Equity mutual funds	820,804	820,804		
US Government obligations	520,495		520,495	
Certificates of deposit	500,527		500,527	
Municipal obligations	<u>100,000</u>		<u>100,000</u>	
Total	<u>\$ 10,541,837</u>	<u>\$ 2,953,057</u>	<u>\$ 7,588,780</u>	<u>\$ —</u>
<b>LIABILITIES</b>				
Interest rate swap agreements	<u>\$ 575,982</u>	<u>\$ —</u>	<u>\$ 575,982</u>	<u>\$ —</u>
<b>2009:</b>				
<b>ASSETS</b>				
Corporate obligations	\$ 3,562,128		\$ 3,562,128	
Money market accounts	3,343,465	\$ 3,343,465		
Municipal obligations	2,815,000		2,815,000	
Certificates of deposit	753,367		753,367	
US Government obligations	<u>501,405</u>		<u>501,405</u>	
Total	<u>\$ 10,975,365</u>	<u>\$ 3,343,465</u>	<u>\$ 7,631,900</u>	<u>\$ —</u>
<b>LIABILITIES</b>				
Interest rate swap	<u>\$ 86,201</u>	<u>\$ —</u>	<u>\$ 86,201</u>	<u>\$ —</u>

## 5. PLEDGES RECEIVABLE

Unconditional pledges receivable are as follows as of August 31:

	<b>2010</b>	<b>2009</b>
Due in one year	\$ 1,374,442	\$ 1,044,853
Due in two to five years	<u>519,219</u>	<u>1,615,374</u>
Total	1,893,661	2,660,227
Less unamortized discount	90,533	88,104
Less allowance for uncollectible pledges	<u>347,809</u>	<u>79,825</u>
Total	1,455,319	2,492,298
Less current portion	<u>997,332</u>	<u>1,013,507</u>
Long-term portion	<u>\$ 457,987</u>	<u>\$ 1,478,791</u>

Management has established an allowance for uncollectible pledges based on historical collection information and existing economic conditions. Management believes the amortized balance of pledges receivable approximates their fair value.

## 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of August 31:

	2010	2009
Buildings and improvements	\$ 35,821,286	\$ 35,820,231
Furniture, fixtures and equipment	<u>2,681,529</u>	<u>2,672,536</u>
Total	38,502,815	38,492,767
Less accumulated depreciation	<u>10,258,537</u>	<u>8,742,207</u>
Total	<u>\$ 28,244,278</u>	<u>\$ 29,750,560</u>

## 7. DEMAND DEVELOPMENT REVENUE BONDS PAYABLE

In July 2006, the City of Colorado Springs, Colorado (City) issued Demand Development Revenue Bonds (Bonds) on behalf of the Fine Arts Center. In connection with the issuance of the Bonds, the Fine Arts Center entered into a loan agreement with the City to borrow from the City \$15,000,000, an amount equal to the bonds issued. Principal payments are due annually through July 2021. Interest is paid quarterly at a variable rate. The bonds were issued at a discount of which the unamortized portion at August 31, 2010 and 2009 was \$49,125 and \$53,625, respectively. The debt is secured by land, buildings and improvements, inventory, investments and equipment.

The Fine Arts Center has an irrevocable letter of credit agreement with a bank in the amount of \$15,431,507 in order to credit enhance and provide security to the holders of the bonds. A quarterly fee of .1875% of the outstanding letter of credit is paid to the bank.

Future minimum principal payments for the next five years and thereafter are as follows:

2011	\$ 960,000
2012	1,005,000
2013	1,045,000
2014	1,090,000
2015	1,140,000
Thereafter	<u>7,955,000</u>
Total	<u>\$ 13,195,000</u>

The Fine Arts Center believes that the stated value of its bonds payable approximates its fair value.

The Fine Arts Center entered into an interest rate swap agreement in 2009 to fix the interest rate on a portion of the bonds at 2.35% through March 2012. The swap agreement was issued with a notional principal amount of \$6,000,000, \$2,650,000 which remains outstanding at August 31, 2010. The Fine Arts Center entered into a second swap agreement during 2010 to fix the interest rate on the remaining bonds at 2.49% through July 1, 2021. The swap agreement was issued with a notional principal amount of \$10,545,000 all of which remains outstanding at August 31, 2010. The Fine Arts Center

incurred a \$489,781 loss due to a decrease in the fair value of the interest rate swap agreements during the year ended August 31, 2010. The fair market value of the interest rate swaps at August 31, 2010 is \$(575,982) and is included in liabilities in the accompanying financial statements. Total interest expense on the bonds including the interest rate swap agreements for the year ending August 31, 2010 was \$144,660.

**8. ART COLLECTION**

In conformity with the practice followed by many museums, art objects purchased and donated are not included in the accompanying balance sheet.

During the year ended August 31, 2010 and 2009, the Fine Arts Center purchased art objects totaling \$31,950 and \$37,580, respectively. In addition, the Fine Arts Center received donated works of art valued at \$115,557 and \$280,400, respectively, which have been recorded as revenue and an expense in the accompanying financial statements. There were no deaccessions during 2010 or 2009. It is the policy of the Fine Arts Center's management that proceeds from the sale of any collection items be used to purchase additional collection items.

**9. LINE OF CREDIT**

The Fine Arts Center maintains a \$500,000 unsecured revolving line of credit arrangement with a bank to provide for working capital as needed. The line of credit bears interest at the bank's prime rate plus .5% with a floor of 5% (5% at August 31, 2010), is collateralized by a \$500,000 certificate of deposit and is due April 15, 2011. At August 31, 2010, \$179,650 was outstanding on this line of credit.

**10. CAPITAL LEASE PAYABLE OBLIGATION**

The Fine Arts Center leases software under the terms of a capital lease. The software is depreciated over its estimated average life. The software is recorded at a cost of \$336,633 and accumulated depreciation of \$115,016 at August 31, 2010. As of August 31, 2010, future minimum lease payments under the above lease are summarized as follows:

2011	\$ 77,916
2012	<u>25,972</u>
Total minimum lease payments	103,888
Less amount representing interest	<u>4,217</u>
Present value of net minimum lease payments	99,671
Less current portion	<u>74,016</u>
Long-term portion	<u>\$ 25,655</u>

## 11. RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31 are available for the following purposes:

	2010	2009
Building renovations and debt payment (pledges receivable)	\$ 1,455,325	\$ 2,492,298
Art collection purchases	92,301	214,505
Other	<u>49,305</u>	<u>280,349</u>
Total	<u>\$ 1,596,931</u>	<u>\$ 2,987,152</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used for art scholarships, art education, staff education, and art library material.

The Board of Directors has designated a portion of the unrestricted net assets for art acquisition and museum publications.

## 12. ENDOWMENT FUNDS

The Fine Arts Center's endowment consists of ten individual funds established for a variety of purposes. Its endowment consists of donor-related endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2008, the State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Fine Arts Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 Fine Arts Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fine Arts Center 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 Fine Arts Center 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 Fine Arts Center
- 7) The investment policies of the Fine Arts Center

Endowment Net Asset Composition by Type of Fund as of August 31, 2010 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	<u>\$ (15,790)</u>	<u>\$ —</u>	<u>\$ 658,876</u>	<u>\$ 643,086</u>

Changes in Endowment Net Assets for the year ended August 31, 2010 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, Beginning of year	\$ (19,745)	\$ —	\$ 658,876	\$ 639,131
Net appreciation (realized and unrealized)	<u>3,955</u>	<u>—</u>	<u>—</u>	<u>3,955</u>
Endowment net assets, end of year	<u>\$ (15,790)</u>	<u>\$ —</u>	<u>\$ 658,876</u>	<u>\$ 643,086</u>

Endowment Net Asset Composition by Type of Fund as of August 31, 2009 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	<u>\$ (19,745)</u>	<u>\$ —</u>	<u>\$ 658,876</u>	<u>\$ 639,131</u>

Changes in Endowment Net Assets for the year ended August 31, 2009 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, Beginning of year	\$ —	\$ 123,988	\$ 658,876	\$ 782,864
Net depreciation (realized and unrealized)	<u>(19,745)</u>	<u>(123,988)</u>	<u>—</u>	<u>(143,733)</u>
Endowment net assets, end of year	<u>\$ (19,745)</u>	<u>\$ —</u>	<u>\$ 658,876</u>	<u>\$ 639,131</u>

The Fine Arts Center 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 Fine Arts Center must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to produce maximum results while assuming a moderate level of investment risk. The Fine Arts Center expects its endowment funds, over time, to provide an average rate of return of 6% over the inflation rate annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Fine Arts Center 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 Fine Arts Center targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Subject to UPMIFA, the Fine Arts Center currently has a policy of appropriating for distribution each year 5% of a twelve quarter trailing average of the fair value of the Fine Arts Center calculated on March 31 of each year.