stockman kast ryan + co LLP

COLORADO SPRINGS FINE ARTS CENTER

Financial Statements

For the Year Ended August 31, 2013

And

Independent Auditors' Report

stockman kast ryan + co LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Colorado Springs Fine Arts Center

We have audited the accompanying financial statements of Colorado Springs Fine Arts Center (the Fine Arts Center), which comprise the balance sheet as of August 31, 2013, and the related statements of activities and cash flows 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.

Auditors' 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.

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Basis for Qualified 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, 2013, total assets and net assets would each increase by $13,393,865, total revenue would increase by $897,571 and total expenses would increase by $48,893.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Springs Fine Arts Center as of August 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Fine Arts Center's 2012 financial statements and our report dated December 20, 2012 expressed a qualified opinion on those financial statements because of the departure from generally accepted accounting principles described in the Basis for Qualified Opinion paragraph. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan & Co., LLP

November 20, 2013

COLORADO SPRINGS FINE ARTS CENTER

BALANCE SHEET
AUGUST 31, 2013 (with comparative totals for 2012)

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	$ 52,243	$ 123,740
Accounts receivable, net	33,002	34,729
Current portion of pledges receivable, net	256,304	716,138
Prepaid expenses and other assets	150,340	88,870
Total	491,889	963,477
PLEDGES RECEIVABLE, NET	123,331	101,672
INVESTMENTS, AT FAIR VALUE	671,937	647,807
RESTRICTED INVESTMENTS	500,000	500,000
INVESTMENTS HELD FOR DEBT SERVICE	7,247,177	7,407,583
CASH RESTRICTED FOR PURCHASE OF PROPERTY AND EQUIPMENT		334,406
PROPERTY AND EQUIPMENT, NET	24,423,845	25,432,654
BOND ISSUANCE COSTS	68,326	76,957
ART COLLECTION		
TOTAL	$ 33,526,505	$ 35,464,556
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 170,808	$ 247,000
Accrued expenses	184,882	192,004
Deferred revenue	372,064	381,427
Line of credit	449,396	500,000
Current portion of demand development revenue bonds payable	1,090,000	1,045,000
Total	2,267,150	2,365,431
DEMAND DEVELOPMENT REVENUE BONDS PAYABLE	9,059,375	10,144,875
FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS	513,652	932,451
TOTAL	11,840,177	13,442,757
NET ASSETS		
Unrestricted	20,603,304	20,188,022
Temporarily restricted	479,860	1,230,613
Permanently restricted	603,164	603,164
Total	21,686,328	22,021,799
TOTAL	$ 33,526,505	$ 35,464,556

See notes to financial statements.

COLORADO SPRINGS FINE ARTS CENTER

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013 (with comparative totals for 2012)

	2013				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2012 Total**
SUPPORT AND REVENUE					
Gifts and grants	$ 1,622,650	$ 87,781		$ 1,710,431	$ 1,446,202
Program revenue	1,067,134			1,067,134	969,600
Contributions from Foundation	713,813			713,813	853,574
Investment income	700,718			700,718	546,668
Events	429,907			429,907	377,154
Gain (loss) on interest rate swap	418,799			418,799	(238,134)
Gifts of art	286,650			286,650	507,950
Auxiliary activities	292,459			292,459	305,179
Membership dues	194,635			194,635	209,402
Gift shop sales, net	11,893			11,893	11,837
Net assets released from restrictions:					
Satisfaction of purpose restrictions	318,406	(318,406)			
Satisfaction of time restrictions	486,723	(486,723)			
Donor release of restrictions	33,405	(33,405)			
Total	6,577,192	(750,753)	$ —	5,826,439	4,989,432
EXPENSES					
Program services:					
Occupancy	2,573,200			2,573,200	2,612,178
Performing arts	802,302			802,302	760,232
Events	413,057			413,057	361,787
Bemis Art School	329,404			329,404	360,788
Museum	308,204			308,204	409,387
Acquisitions – gifts of art	286,650			286,650	507,950
Accession of art for collection	7,353			7,353	24,921
Support services:					
Management and general	621,202			621,202	640,142
Communications	343,805			343,805	319,622
Fund raising	297,559			297,559	269,873
Auxiliary	101,035			101,035	91,235
Premises	76,391			76,391	77,815
Financing	1,748			1,748	25,564
Total	6,161,910	—	—	6,161,910	6,461,494
CHANGE IN NET ASSETS	415,282	(750,753)	—	(335,471)	(1,472,062)
NET ASSETS, Beginning of year	20,188,022	1,230,613	603,164	22,021,799	23,493,861
NET ASSETS, End of year	$ 20,603,304	$ 479,860	$ 603,164	$ 21,686,328	$ 22,021,799

See notes to financial statements.

COLORADO SPRINGS FINE ARTS CENTER

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2013 (with comparative totals for 2012)

	2013	2012
OPERATING ACTIVITIES		
Change in net assets	$ (335,471)	$ (1,472,062)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized investment gains	(445,805)	(290,211)
Depreciation and amortization	1,461,620	1,462,845
Loss (gain) on interest rate swap	(418,799)	238,134
Loss on disposal of property and equipment	624	
Contributions restricted for long-term purposes	(10,143)	(587,519)
Accession of art for collection	7,353	24,921
Changes in operating assets and liabilities:		
Accounts receivable, net	1,727	(5,690)
Pledges receivable, net	106,958	173,050
Inventories	1,538	10,723
Prepaid expenses	(63,008)	(11,002)
Accounts payable and accrued expenses	(83,314)	155,402
Deferred revenue	(9,363)	(77,261)
Net cash provided by (used in) operating activities	213,917	(378,670)
INVESTING ACTIVITIES		
Purchases of art objects	(7,353)	(24,921)
Purchases of property and equipment	(440,304)	(90,273)
Change in restricted cash	334,406	(334,406)
Purchases of investments	(3,834,253)	(1,845,045)
Proceeds from sales of investments	4,416,334	2,982,300
Net cash provided by investing activities	468,830	687,655
FINANCING ACTIVITIES		
Net advances (repayments) on line of credit	(50,604)	195,700
Payments on bonds payable	(1,045,000)	(1,005,000)
Payments on capital lease		(25,656)
Collection of contributions restricted for investment in property and equipment	341,360	544,934
Net cash used in financing activities	(754,244)	(290,022)
NET INCREASE (DECREASE) IN CASH	(71,497)	18,963
CASH, Beginning of year	123,740	104,777
CASH, End of year	$ 52,243	$ 123,740

SUPPLEMENTAL CASH FLOW INFORMATION

	2013	2012
Cash paid for interest	$ 279,056	$ 307,441

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 (the 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 (US GAAP). Accordingly, such information should be read in conjunction with the Fine Arts Center's financial statements for the year ended August 31, 2012, 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 Fine Arts Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Fine Arts Center.

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 unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support 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. Government agency obligations, municipal obligations and corporate obligations are priced by the asset custodian based on quoted prices for identical or similar assets in active markets. Common stock, mutual funds, real estate investment trusts, and money market accounts are valued based on quoted prices in active markets. Certificates of deposit are valued at cost which approximates 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, 2013 and 2012, a substantial number of volunteers donated time to the Fine Arts Center'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 debts 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. As of August 31, 2013, accounts receivable are recorded net of an allowance for uncollectible accounts of $1,534`.

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 adjusted interest rate (4.5% in 2013). 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. Management has established an allowance for uncollectible pledges based on historical collection information and existing economic conditions.

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 to 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 believes the Fine Arts Center does not have any uncertain tax positions that are material to the financial statements. Tax years that remain subject to examination include 2010 through the current period.

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 reporting period. Actual results could differ from those estimates.

Derivative Instruments — In order to reduce the risk of 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.

Reclassifications — Certain amounts in the 2012 financial statements have been reclassified to conform with the current year format.

Subsequent Events — The Fine Arts Center has evaluated subsequent events for recognition or disclosure through November 20, 2013, 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 members of 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, 2013 and 2012 and for the years then ended.

Condensed Balance Sheet

	2013	2012
ASSETS		
Investments, at fair value	$ 13,393,865	$ 12,545,187
NET ASSETS		
Temporarily restricted	$ 10,205,852	$ 9,372,174
Permanently restricted	3,188,013	3,173,013
Total	$ 13,393,865	$ 12,545,187

Condensed Statement of Activities

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Investment income		$ 1,594,784		$ 1,594,784	$ 904,171
Contributions			$ 15,000	15,000	7,500
Net assets released from restrictions	$ 761,106	(761,106)			
Total	761,106	833,678	15,000	1,609,784	911,671
EXPENSES					
Contributions to the Fine Arts Center	712,213			712,213	853,214
Other	48,893			48,893	47,605
Total	761,106	—	—	761,106	900,819
Change in net assets	—	833,678	15,000	848,678	10,852
NET ASSETS, Beginning of period	—	9,372,174	3,173,013	12,545,187	12,534,335
NET ASSETS, End of period	$ —	$10,205,852	$ 3,188,013	$ 13,393,865	$ 12,545,187

3. INVESTMENTS AND 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 Fine Arts Center 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:

	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2013:				
ASSETS				
Domestic common stock	$ 1,372,000	$ 1,372,000		
Domestic equity mutual funds	1,354,788	1,354,788		
International equity mutual funds	1,335,912	1,335,912		
Corporate obligations	1,195,166	1,195,166		
Domestic fixed income mutual funds	615,861	615,861		
International fixed income mutual funds	509,390	509,390		
Certificates of deposit-restricted	502,513	502,513		
International real asset funds	459,742	459,742		
Government agency obligations	355,115	355,115		
Real estate investment trusts	284,556	284,556		
International common stock	244,220	244,220		
Money market accounts	108,260	108,260		
Domestic real asset funds	81,591	81,591		
Total	$ 8,419,114	$ 8,419,114	$ —	$ —
LIABILITIES				
Interest rate swap agreements	$ 513,652	$ —	$ —	$ 513,652

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2012:				
ASSETS				
International equity mutual funds	$ 1,413,639	$ 1,413,639		
Corporate obligations	1,257,363	1,257,363		
Domestic common stock	1,243,359	1,243,359		
Domestic equity mutual funds	1,085,900	1,085,900		
Domestic fixed income mutual funds	749,767	749,767		
Government agency obligations	515,374	515,374		
Certificates of deposit-restricted	502,367	502,367		
International fixed income mutual funds	549,770	549,770		
International real asset funds	450,331	450,331		
Real estate investment trusts	295,073	295,073		
Money market accounts	283,575	283,575		
International common stock	124,459	124,459		
Domestic real asset funds	84,413	84,413		
Total	$ 8,555,390	$ 8,555,390	$ —	$ —
LIABILITIES				
Interest rate swap agreements	$ 932,451	$ —	$ —	$ 932,451

Liabilities measured on a recurring basis using significant unobservable inputs (Level 3) are as follows:

Interest Rate Swap Agreements, September 1, 2011	$ (694,317)
Change in value recognized as a loss	(238,134)
Interest Rate Swap Agreements, August 31, 2012	(932,451)
Change in value recognized as a gain	418,799
Interest Rate Swap Agreements, August 31, 2013	$ (513,652)

Fair value of the interest rate swap agreement is determined by the counterparty to the swap and is based on a discounted future cash flows approach.

Restricted investments are held as collateral for the Fine Arts Center's line of credit (see Note 8).

Investments held for debt service are held as collateral for the Fine Arts Center's demand development revenue bonds payable (see Note 6).

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

	2013	2012
Interest and dividend income	$ 254,913	$ 256,457
Realized and unrealized investment gains	445,805	290,211
Total	$ 700,718	$ 546,668

4. PLEDGES RECEIVABLE

Unconditional pledges receivable are as follows as of August 31:

	2013	2012
Due in one year	$ 690,879	$ 1,196,994
Due in two to five years	139,252	118,860
Thereafter	1,000	2,000
Total	831,131	1,317,854
Less unamortized discount	34,349	61,882
Less allowance for uncollectible pledges	417,147	438,162
Total	379,635	817,810
Less current portion	256,304	716,138
Long-term portion	$ 123,331	$ 101,672

5. PROPERTY AND EQUIPMENT

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

	2013	2012
Buildings and improvements	$ 36,335,940	$ 35,874,135
Furniture, fixtures and equipment	2,712,392	2,696,595
Construction in progress		39,694
Total	39,048,332	38,610,424
Less accumulated depreciation	14,624,487	13,177,770
Total	$ 24,423,845	$ 25,432,654

Depreciation expense was $1,448,489 and $1,449,714 during the years ending August 31, 2013 and 2012, respectively.

6. DEMAND DEVELOPMENT REVENUE BONDS PAYABLE

In July 2006, the City of Colorado Springs, Colorado (the City) issued Demand Development Revenue Bonds (the 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 $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, 2013 and 2012 was $35,625 and $40,125, 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 the Bonds and provide security to the holders of the Bonds. The letter of credit expires August 2, 2016 and is renewed annually at the option of the bank. A quarterly fee of .1875% of the outstanding principal balance of the Bonds is paid to the bank.

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

2014	$ 1,090,000
2015	1,140,000
2016	1,190,000
2017	1,240,000
2018	1,295,000
Thereafter	4,230,000
Total	$ 10,185,000

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%. The swap agreement was issued with a notional principal amount of $6,000,000 and terminated in March 2012. 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 and $10,185,000, is outstanding at August 31, 2013. The Fine Arts Center incurred gains and (losses) of $418,799 and $(238,134) due to increases and decreases in the fair value of the interest rate swap agreements during the years ended August 31, 2013 and 2012, respectively. The fair market value of the interest rate swap at August 31, 2013 is $(513,652) and is included in liabilities in the accompanying financial statements. The fair value was based on information received from the counterparty to the swap and represents an estimate of the market value of the swap using a discounted future cash flows approach. Total interest expense on the bonds net of the interest rate swap agreements for the year ending August 31, 2013 was $265,680.

7. ART COLLECTION

In conformity with the practice followed by many museums, art objects purchased and donated are not recognized as assets in the accompanying balance sheet. The Fine Arts Center's art objects are held for educational, research and curatorial purposes. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. It is the policy of the Fine Arts Center's management that proceeds from the sale of any collection items be used for the purchase of additional collection items or the conservation of existing collections in accordance with recommendations promulgated by the American Alliance of Museums.

During the year ended August 31, 2013 and 2012, the Fine Arts Center purchased art objects totaling $7,353 and $24,921, respectively. In addition, the Fine Arts Center received donated works of art valued at $286,650 and $507,950, respectively, which have been recorded as revenue and an expense in the accompanying financial statements. There were no deaccessions during the years ended August 31, 2013 or 2012.

8. LINE OF CREDIT

The Fine Arts Center maintains a $500,000 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% (3.75% at August 31, 2013), is collateralized by a $500,000 certificate of deposit and is due May 15, 2014. At August 31, 2013, $449,396 was outstanding on this line of credit.

9. RESTRICTED NET ASSETS

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

	2013	**2012**
Pledges receivable for building renovations, debt payment, and operating expenses	$ 379,635	$ 817,810
Art collection purchases	96,072	73,056
Roof construction		334,406
Other	4,153	5,341
Total	$ 479,860	$ 1,230,613

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 and staff education.

10. EMPLOYEE BENEFIT PLAN

The Fine Arts Center maintains a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code. Eligible employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Employer contributions are discretionary as defined in the plan document. The Fine Arts Center did not make contributions to the plan during the years ended August 31, 2013 and 2012.

11. ENDOWMENT FUNDS

The Fine Arts Center's endowment consists of six 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.

The State of Colorado has 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, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (35,233)	$ 1,268	$ 603,164	$ 569,199

Changes in Endowment Net Assets for the year ended August 31, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	$ (35,435)	$ 1,681	$ 603,164	$ 569,410
Net appreciation (realized and unrealized)	202	12		214
Amounts appropriated for expenditure		(425)		(425)
Endowment net assets, end of year	$ (35,233)	$ 1,268	$ 603,164	$ 569,199

Endowment Net Asset Composition by Type of Fund as of August 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (35,435)	$ 1,681	$ 603,164	$ 569,410

Changes in Endowment Net Assets for the year ended August 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	$ (36,196)	$ 23,456	$ 618,464	$ 605,724
Net appreciation (realized and unrealized)	555	32		587
Contributions	206	5,181		5,387
Donor release of restrictions			(15,300)	(15,300)
Amounts appropriated for expenditure		(26,988)		(26,988)
Endowment net assets, end of year	$ (35,435)	$ 1,681	$ 603,164	$ 569,410

From time to time, the fair value of assets associated with individual donor-related endowment funds may fall below the level that the donor or UPMIFA requires the Fine Arts Center to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature that are reported in unrestricted net assets were $35,233 and $35,435 as of August 31, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations.

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. 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 greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

12. CONCENTRATIONS, RISKS AND UNCERTAINTIES

The Fine Arts Center maintains its cash and cash equivalents in bank deposit accounts which, at times, exceed federally insured limits. The Fine Arts Center has not experienced any losses in such accounts.