

**Texas Association of Museums**  
Financial Statements and  
Independent Auditors' Report  
December 31, 2012 and 2011

Texas Association of Museums

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**Dunagan★Jack LLP**  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

To the Council  
Texas Association of Museums

We have audited the accompanying financial statements of Texas Association of Museums (a Texas nonprofit corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Texas Association of Museums as of December 31, 2012 and 2011, 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.



Austin, Texas  
October 11, 2013

## **FINANCIAL STATEMENTS**

Texas Association of Museums

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 126	\$ 3,498
Investments (Note C)	35,567	39,705
Accounts receivable	100	3,675
Inventory	251	1,074
Prepaid expenses	2,420	2,328
Beneficial interest in fund held by CFT (Note D)	26,835	22,599
Property and equipment (Note E)	<u>8,088</u>	<u>10,806</u>
Total assets	<u>\$ 73,387</u>	<u>\$ 83,685</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 5,235	\$ 13,511
Deferred revenues (Note F)	<u>32,306</u>	<u>34,535</u>
Total liabilities	<u>37,541</u>	<u>48,046</u>
<b>Net assets</b>		
Unrestricted	(37,066)	(17,987)
Temporarily restricted (Note G)	36,790	19,729
Permanently restricted (Note H)	<u>36,122</u>	<u>33,897</u>
Total net assets	<u>35,846</u>	<u>35,639</u>
Total liabilities and net assets	<u>\$ 73,387</u>	<u>\$ 83,685</u>

The accompanying notes are an integral part of these financial statements.

Texas Association of Museums  
STATEMENTS OF ACTIVITIES  
For the years ended December 31,

	2012	2011
Changes in unrestricted net assets		
Revenues and gains		
Annual meeting fees	\$ 127,098	\$ 90,034
Membership dues	68,118	64,755
Grants and contributions	26,237	10,163
Workshop registration fees	6,375	4,980
Return on investments	4,880	1,858
Fees for services	-	37,850
Other revenues	2,729	2,448
Total unrestricted revenues and gains	235,437	212,088
Net assets released from restrictions	4,268	54,496
Total unrestricted revenues, gains and other support	239,705	266,584
Expenses		
Program services	167,799	187,686
Management and general	51,755	52,967
Fundraising	39,230	40,526
Total expenses	258,784	281,179
Decrease in unrestricted net assets	(19,079)	(14,595)
Changes in temporarily restricted net assets		
Grants and contributions	18,793	15,143
Change in value of fund held by CFT	2,536	(817)
Net assets released from restrictions	(4,268)	(54,496)
Increase (decrease) in temporarily restricted net assets	17,061	(40,170)
Changes in permanently restricted net assets		
Grants and contributions	2,225	1,700
Increase in permanently restricted net assets	2,225	1,700
Change in net assets	207	(53,065)
Net assets at beginning of year	35,639	88,704
Net assets at end of year	\$ 35,846	\$ 35,639

The accompanying notes are an integral part of these financial statements.

Texas Association of Museums  
STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 207	\$ (53,065)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	2,718	1,537
Realized and unrealized (gains) losses on investments	(3,170)	(332)
Change in value of fund held by CFT	(2,536)	817
Decrease (increase) in accounts receivable	3,575	(3,615)
Decrease in inventory	823	188
Increase in prepaid expenses	(92)	(60)
(Decrease) increase in accounts payable and accrued expenses	(8,276)	10,880
(Decrease) increase in deferred revenues	(2,229)	1,200
Contributions restricted for endowment	(2,225)	(1,700)
Net cash used by operating activities	(11,205)	(44,150)
Cash flows from investing activities:		
Cash transferred to fund held by CFT	(1,700)	-
Purchases of investments	(1,692)	(1,498)
Proceeds from sales and maturities of investments	9,000	25,125
Purchases of equipment	-	(8,873)
Net cash provided by investing activities	5,608	14,754
Cash flows from financing activities:		
Investments in endowment	2,225	1,700
Net cash provided by financing activities	2,225	1,700
Net decrease in cash and cash equivalents	(3,372)	(27,696)
Cash and cash equivalents at beginning of year	3,498	31,194
Cash and cash equivalents at end of year	\$ 126	\$ 3,498
Supplemental data:		
Income taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

**NOTES TO FINANCIAL STATEMENTS**

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

**NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

1. Organization and Nature of Activities

Texas Association of Museums (Association) was incorporated in the State of Texas on February 26, 1975. The Association is dedicated to strengthening and servicing the museum community by nurturing and training museum leaders, developing and celebrating the field, and voicing the public worth of museums. Membership is open to all individuals and institutions who are involved in museums or museum-related activities.

2. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

3. Basis of Presentation

Financial statement presentation follows the guidance of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-208, *Not-for-Profit Entities: Presentation of Financial Statements*. Under these standards, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

4. Cash Equivalents

The Association considers all checking accounts, savings accounts, money market funds and certificates of deposit with initial maturities of three months or less to be cash equivalents.

5. Investments

The Association records investments using the guidance of FASB ASC 958-320, *Not-for-Profit Entities: Investments - Debt and Equity Securities*. Investments in marketable securities with readily determined fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

**NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Inventory

Inventory comprised publications, primarily *The Museum Forms Book*. Inventory is stated at the lower of cost or market, determined by the first-in, first-out method of expensing.

7. Property and Equipment

Acquisitions of property and equipment are capitalized at cost, if purchased, or fair market value on the date of donation, if received as a gift. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, generally five to seven years for furniture and equipment. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expiration of restrictions when the assets are placed into service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time.

8. Revenue Recognition

Membership dues provide for a year of services from the Association from the anniversary date of each member. These dues are recognized ratably over the year as earned.

9. Contributions

The Association records contributions using the guidance of FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets. The Association's policy is to report restricted support that is satisfied in the year of receipt as first restricted and then reclassified to unrestricted net assets.

10. Functional Allocation of Expenses

Expenses are categorized by function in the statements of activities as either (1) program services, (2) management and general, or (3) fundraising expenses. Expenses that are specifically identified to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management's estimate of time and resources devoted to each function.

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

**NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE B - TAX EXEMPT STATUS**

The Internal Revenue Service has determined that the Association is generally exempt from income tax under Section 501(a) of the Internal Revenue Code (Code) as an organization described in Section 501(c)(3). The Association has been classified as a publicly supported charitable organization under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code. Therefore, no provision for federal income taxes has been reflected in these financial statements.

The tax years 2010 through 2012 remain open to examination by the major taxing jurisdictions in which income tax returns are filed.

**NOTE C - INVESTMENTS**

Investments comprised \$35,567 and \$39,705 in the Vanguard Wellington Fund (VWELX) as of December 31, 2012 and 2011, respectively.

**NOTE D - BENEFICIAL INTEREST IN FUND HELD BY CFT**

In September 2007, the Association established "The Texas Association of Museums Fund of CFT" with Communities Foundation of Texas (CFT), specifying itself as the beneficiary of this Fund. The Association has recorded this interest using the guidance of FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*. Therefore, this Fund has been recorded as an asset at December 31, 2012 and 2011. The total value of the fund was \$26,835 and \$22,599 at December 31, 2012 and 2011, respectively.

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

**NOTE E - PROPERTY AND EQUIPMENT**

Property and equipment comprised the following at December 31,

	<u>2012</u>	<u>2011</u>
Computer equipment	\$ 10,470	\$ 10,470
Software	<u>1,873</u>	<u>1,873</u>
	12,343	12,343
Less accumulated depreciation	<u>(4,255)</u>	<u>(1,537)</u>
	<u>\$ 8,088</u>	<u>\$ 10,806</u>

Depreciation expense totaled \$2,718 and \$1,537 for the years ended December 31, 2012 and 2011, respectively.

**NOTE F - DEFERRED REVENUES**

Deferred revenues comprised the following at December 31,

	<u>2012</u>	<u>2011</u>
Deferred membership dues	\$ 30,356	\$ 31,585
Deferred exhibitor fees	<u>1,950</u>	<u>2,950</u>
	<u>\$ 32,306</u>	<u>\$ 34,535</u>

**NOTE G - TEMPORARILY RESTRICTED NET ASSETS**

Net assets were temporarily restricted for the following purposes and/or periods as of December 31,

	<u>2012</u>	<u>2011</u>
2013 Annual meeting	\$ 15,000	\$ -
Glenda Morgan scholarship fund	9,805	9,805
Technology and communication capacity	8,876	9,351
Unappropriated endowment earnings	<u>3,109</u>	<u>573</u>
	<u>\$ 36,790</u>	<u>\$ 19,729</u>

During the years ended December 31, 2012 and 2011, temporarily restricted net assets in the amounts of \$4,268 and \$54,496, respectively, were released to unrestricted net assets due to the satisfactions of purpose and time restrictions.

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

**NOTE H - ENDOWMENT FUND**

In 2007 the Association announced the creation of an endowment fund to help sustain its continuing operations and success in serving its membership.

The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (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 Association 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

***Return Objectives***

The Association 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.

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

**NOTE H - ENDOWMENT FUND - CONTINUED**

*Strategies Employed for Achieving Objectives*

To achieve its return objectives on its endowment fund, the Association forwards endowment gifts to The Texas Association of Museums Fund of CFT. CFT's fiduciary responsibilities include the prudent investment of its assets. The CFT Investment Committee sets investment policy and oversees the performance of its investments. The Texas Association of Museums Fund of CFT is primarily invested in CFT's Growth Fund. Target allocations for the Growth Fund are as follows:

70-80%	Diversified Equity
15-25%	Fixed Income
4-6%	Cash Equivalents

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Association has a discretionary spending policy for determining appropriations for distribution. Any appropriations are consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as provide additional real growth through new gifts and investment return.

Changes in the Association's endowment fund (which excludes contributions receivable) were as follows for the years ended December 31, 2012 and 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund, December 31, 2010	\$ -	\$ 1,390	\$ 32,197	\$ 33,587
Contributions	-	-	1,700	1,700
Return on investments	-	(817)	-	(817)
Appropriations	-	-	-	-
Endowment fund, December 31, 2011	-	573	33,897	34,470
Contributions	-	-	2,225	2,225
Return on investments	-	2,536	-	2,536
Appropriations	-	-	-	-
Endowment fund, December 31, 2012	<u>\$ -</u>	<u>\$ 3,109</u>	<u>\$ 36,122</u>	<u>\$ 39,231</u>

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

**NOTE I - LEASE COMMITMENTS**

The Association leases office space in Fort Worth, Texas. As of December 31, 2012, future minimum lease payments under this operating lease were as follows:

Years ending December 31,	Lease Payments
2013	\$ 14,974
2014	15,376
2015	7,927
thereafter	-

The Association's lease agreement for office space has a lease term from June 2010 through June 2015. Base rent escalates from an initial rate of \$1,007 per month to \$1,118 at the end of the term. Additional rent might be payable over the term for actual building operating expenses over a certain dollar threshold. Facilities rent expense of \$13,905 and \$14,473 was recognized during the years ended December 31, 2012 and 2011, respectively.

**NOTE J - FAIR VALUE MEASUREMENTS**

Certain assets are carried at fair value in these financial statements. Fair value measurements were arrived at using the following inputs at December 31,

Description	2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Vanguard Wellington Fund	\$ 35,567	\$ 35,567	\$ -	\$ -
Beneficial interest in CFT fund	26,835	-	26,835	-
	<u>\$ 62,402</u>	<u>\$ 35,567</u>	<u>\$ 26,835</u>	<u>\$ -</u>
Description	2011	(Level 1)	(Level 2)	(Level 3)
Vanguard Wellington Fund	\$ 39,705	\$ 39,705	\$ -	\$ -
Beneficial interest in CFT fund	22,599	-	22,599	-
	<u>\$ 62,304</u>	<u>\$ 39,705</u>	<u>\$ 22,599</u>	<u>\$ -</u>

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

**NOTE K - DONATED SERVICES AND FACILITIES**

The Association received in-kind contributions of facilities for the annual meeting and other events and workshops. The Association estimates the fair value of donated facilities to be \$9,450 and \$6,600 for the years ended December 31, 2012 and 2011, respectively.

**NOTE L - CONCENTRATION RISK**

Annual meetings revenues represented 49% and 39% of total revenues for the years ended December 31, 2012 and 2011, respectively.

**NOTE M - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 11, 2013, the date the financial statements were available to be issued.