

Texas Association of Museums
Financial Statements and
Independent Auditors' Report
December 31, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, 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.

A handwritten signature in black ink that reads "DUNAGAN JACK LLP". The signature is stylized and cursive.

Austin, Texas
September 12, 2014

FINANCIAL STATEMENTS

Texas Association of Museums
STATEMENTS OF FINANCIAL POSITION

December 31,

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 10,910	\$ 126
Investments (Note C)	42,561	35,567
Accounts receivable	2,050	100
Inventory	-	251
Prepaid expenses	2,360	2,420
Beneficial interest in fund held by CFT (Note D)	32,270	26,835
Property and equipment (Note E)	5,370	8,088
Total assets	\$ 95,521	\$ 73,387
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 14,480	\$ 5,235
Deferred revenues (Note F)	32,890	32,306
Total liabilities	47,370	37,541
Net assets		
Unrestricted	(35,871)	(37,066)
Temporarily restricted (Note G)	47,300	36,790
Permanently restricted (Note H)	36,722	36,122
Total net assets	48,151	35,846
Total liabilities and net assets	\$ 95,521	\$ 73,387

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

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

	2013	2012
Changes in unrestricted net assets		
Revenues and gains		
Annual meeting fees	\$ 95,833	\$ 127,098
Membership dues	68,316	68,118
Grants and contributions	36,628	26,237
Return on investments	7,002	4,880
Workshop registration fees	2,965	6,375
Other revenues	4,757	2,729
Total unrestricted revenues and gains	215,501	235,437
Net assets released from restrictions	18,785	4,268
Total unrestricted revenues, gains and other support	234,286	239,705
Expenses		
Program services	154,070	167,799
Management and general	42,248	51,755
Fundraising	36,773	39,230
Total expenses	233,091	258,784
Increase (decrease) in unrestricted net assets	1,195	(19,079)
Changes in temporarily restricted net assets		
Grants and contributions	25,000	18,793
Change in value of fund held by CFT	4,295	2,536
Net assets released from restrictions	(18,785)	(4,268)
Increase in temporarily restricted net assets	10,510	17,061
Changes in permanently restricted net assets		
Grants and contributions	600	2,225
Increase in permanently restricted net assets	600	2,225
Change in net assets	12,305	207
Net assets at beginning of year	35,846	35,639
Net assets at end of year	\$ 48,151	\$ 35,846

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,

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 12,305	\$ 207
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	2,718	2,718
Realized and unrealized (gains) losses on investments	(4,341)	(3,170)
Change in value of fund held by CFT	(4,295)	(2,536)
(Increase) decrease in accounts receivable	(1,950)	3,575
Decrease in inventory	251	823
Decrease (increase) in prepaid expenses	60	(92)
Increase (decrease) in accounts payable and accrued expenses	9,245	(8,276)
Increase (decrease) in deferred revenues	584	(2,229)
Contributions restricted for endowment	(600)	(2,225)
Net cash provided (used) by operating activities	13,977	(11,205)
Cash flows from investing activities:		
Cash transferred to fund held by CFT	(4,725)	(1,700)
Distribution from beneficial interest in fund held by CFT	3,585	-
Purchases of investments	(2,653)	(1,692)
Proceeds from sales and maturities of investments	-	9,000
Net cash (used) provided by investing activities	(3,793)	5,608
Cash flows from financing activities:		
Investments in endowment	600	2,225
Net cash provided by financing activities	600	2,225
Net increase (decrease) in cash and cash equivalents	10,784	(3,372)
Cash and cash equivalents at beginning of year	126	3,498
Cash and cash equivalents at end of year	\$ 10,910	\$ 126
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, 2013 and 2012

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, 2013 and 2012

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. 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.

7. 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.

8. 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.

9. 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, 2013 and 2012

NOTE A - ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. 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 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 2011 through 2013 remain open to examination by the major taxing jurisdictions in which income tax returns are filed.

NOTE C - INVESTMENTS

Investments comprised \$42,561 and \$35,567 of shares of the Vanguard Wellington Fund (VWELX) as of December 31, 2013 and 2012, 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, 2013 and 2012. The total value of the fund was \$32,270 and \$26,835 at December 31, 2013 and 2012, respectively.

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at December 31,

	<u>2013</u>	<u>2012</u>
Computer equipment and software	\$ 12,343	\$ 12,343
Less accumulated depreciation	<u>(6,973)</u>	<u>(4,255)</u>
	<u>\$ 5,370</u>	<u>\$ 8,088</u>

Depreciation expense totaled \$2,718 for each of the years ended December 31, 2013 and 2012.

NOTE F - DEFERRED REVENUES

Deferred revenues comprised the following at December 31,

	<u>2013</u>	<u>2012</u>
Deferred membership dues	\$ 30,115	\$ 30,356
Deferred exhibitor fees	<u>2,775</u>	<u>1,950</u>
	<u>\$ 32,890</u>	<u>\$ 32,306</u>

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
2014 Annual meeting	\$ 25,000	\$ -
Glenda Morgan scholarship fund	9,605	9,805
Technology and communication capacity	8,876	8,876
Unappropriated endowment earnings	3,819	3,109
2013 Annual meeting	<u>-</u>	<u>15,000</u>
	<u>\$ 47,300</u>	<u>\$ 36,790</u>

During the years ended December 31, 2013 and 2012, temporarily restricted net assets in the amounts of \$18,785 and \$4,268, 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, 2013 and 2012

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, 2013 and 2012

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, 2013 and 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	-	3,109	36,122	39,231
Contributions	-	-	600	600
Return on investments	-	4,295	-	4,295
Appropriations	-	(3,585)	-	(3,585)
Endowment fund, December 31, 2013	<u>\$ -</u>	<u>\$ 3,819</u>	<u>\$ 36,722</u>	<u>\$ 40,541</u>

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

NOTE I - LEASE COMMITMENT

The Association leases office space in Fort Worth, Texas. As of December 31, 2013, future minimum lease payments under this operating lease were as follows:

<u>Years ending December 31,</u>	<u>Minimum lease payments</u>
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 \$14,504 and \$13,905 was recognized during the years ended December 31, 2013 and 2012, 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,

<u>Description</u>	<u>2013</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Vanguard Wellington Fund	\$ 42,561	\$ 42,561	\$ -	\$ -
Beneficial interest in CFT fund	32,270	-	32,270	-
	<u>\$ 74,831</u>	<u>\$ 42,561</u>	<u>\$ 32,270</u>	<u>\$ -</u>
<u>Description</u>	<u>2012</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
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>

Texas Association of Museums

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2013 and 2012

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 \$6,750 and \$9,450 for the years ended December 31, 2013 and 2012, respectively.

NOTE L - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 12, 2014, the date the financial statements were available to be issued.