

**POLK MUSEUM OF ART, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**POLK MUSEUM OF ART, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Polk Museum of Art, Inc.

We have audited the accompanying statement of financial position of Polk Museum of Art, Inc. (a nonprofit organization) (the Organization) as of June 30, 2011, and the related statements of activities, functional expenses 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 financial statements of Polk Museum of Art, Inc. as of June 30, 2010 were audited by The NCT Group CPA's, LLP (whose practice became part of LarsonAllen LLP effective July 1, 2011), whose report dated October 19, 2010 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Polk Museum of Art, Inc. as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*LarsonAllen LLP*  
**LARSONALLEN LLP**

Lakeland, Florida  
September 26, 2011

**POLK MUSEUM OF ART, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2011 AND 2010**

	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 375,046	\$ 482,863
Governmental Support Receivable	49,875	54,362
Sponsorships Receivable	4,700	31,985
Other Receivables	52,468	12,034
Inventory - Museum Shop	32,024	40,172
Prepaid Expenses	22,236	38,954
Total Current Assets	536,349	660,370
<b>NONCURRENT ASSETS</b>		
Property, Plant and Equipment, Net	2,915,958	2,984,832
Long-Term Investments, at Fair Value	4,377,194	3,841,539
Collection Items	-	-
Total Noncurrent Assets	7,293,152	6,826,371
Total Assets	\$ 7,829,501	\$ 7,486,741
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 41,340	\$ 27,648
Accrued Expenses	6,021	7,855
Deferred Revenues	51,700	76,440
Total Current Liabilities	99,061	111,943
<b>NET ASSETS</b>		
Unrestricted Net Assets:		
Board Designated for Long-Term Investment	3,273,177	2,927,620
Other Unrestricted	3,205,524	3,247,178
Total Unrestricted Net Assets	6,478,701	6,174,798
Temporarily Restricted Net Assets	51,739	-
Permanently Restricted Net Assets	1,200,000	1,200,000
Total Net Assets	7,730,440	7,374,798
Total Liabilities and Net Assets	\$ 7,829,501	\$ 7,486,741

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUES</b>				
Realized and Unrealized Gain on Investments	\$ 675,883	\$ -	\$ -	675,883
Governmental Support	308,558	-	-	308,558
Fundraising	291,775	-	-	291,775
Sponsorships	257,682	-	-	257,682
Memberships	180,563	-	-	180,563
Contributions	198,445	101,094	-	299,539
Program Revenue	138,903	-	-	138,903
Income on Long-Term Investments	89,039	-	-	89,039
Other Income and Revenues	63,969	-	-	63,969
Gift Shop Sales	75,926	-	-	75,926
In-Kind Revenues	72,500	-	-	72,500
Total Support and Revenues	2,353,243	101,094	-	2,454,337
 <b>EXPENSES</b>				
Program Expenses:				
Exhibitions	555,322	-	-	555,322
Education	297,558	-	-	297,558
Operations and Administrative	812,307	-	-	812,307
Fundraising/Development	384,153	-	-	384,153
Total Expenses	2,049,340	-	-	2,049,340
 <b>CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED</b>				
	303,903	101,094	-	404,997
 <b>CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED</b>				
Purchases of Collections	(49,355)	-	-	(49,355)
Net Assets Released From Donor Restrictions to Fund				
Acquisitions of Art Collections	49,355	(49,355)	-	-
 <b>CHANGE IN NET ASSETS</b>				
	303,903	51,739	-	355,642
Net Assets, Beginning of Year	6,174,798	-	1,200,000	7,374,798
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 6,478,701</b>	<b>\$ 51,739</b>	<b>\$ 1,200,000</b>	<b>\$ 7,730,440</b>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUES</b>				
Realized and Unrealized Gain on Investments	\$ 413,258	\$ -	\$ -	\$ 413,258
Governmental Support	340,598	-	-	340,598
Fundraising	271,959	-	-	271,959
Sponsorships	217,257	-	-	217,257
Memberships	176,764	-	-	176,764
Contributions	159,579	-	-	159,579
Program Revenue	108,386	-	-	108,386
Income on Long-Term Investments	85,965	-	-	85,965
Other Income and Revenues	73,277	-	-	73,277
Gift Shop Sales	72,026	-	-	72,026
In-Kind Revenues	48,770	-	-	48,770
Total Support and Revenues	1,967,839	-	-	1,967,839
 <b>EXPENSES</b>				
Program Expenses:				
Exhibitions	516,300	-	-	516,300
Education	270,402	-	-	270,402
Operations and Administrative	658,563	-	-	658,563
Fundraising/Development	343,884	-	-	343,884
Total Expenses	1,789,149	-	-	1,789,149
 <b>CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED</b>				
	178,690	-	-	178,690
 <b>CHANGES RELATED TO ART COLLECTION NOT CAPITALIZED</b>				
Purchases of Collections	(16,088)	-	-	(16,088)
 <b>CHANGE IN NET ASSETS</b>				
	162,602	-	-	162,602
Net Assets, Beginning of Year	6,012,196	-	1,200,000	7,212,196
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 6,174,798</b>	<b>\$ -</b>	<b>\$ 1,200,000</b>	<b>\$ 7,374,798</b>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2011**

	<u>Exhibitions</u>	<u>Education</u>	<u>Operations and Administration</u>	<u>Fundraising/ Development</u>	<u>Total</u>
Salaries and Benefits	\$ 180,350	\$ 128,947	\$ 439,881	\$ 82,836	\$ 832,014
Utilities	57,146	50,003	30,716	5,000	142,865
Depreciation	48,835	42,730	26,249	4,273	122,087
Meetings / Hospitality	2,098	1,621	30,345	83,172	117,236
Other	38,246	7,004	3,297	56,502	105,049
Printing / Promotional	51,400	1,221	10,661	25,802	89,084
Repairs and Maintenance	30,196	26,422	16,231	2,642	75,491
In-Kind Expense	2,844	5,023	61,754	2,879	72,500
Travel	4,139	1,199	3,939	52,053	61,330
Miscellaneous	3,822	-	31,216	21,135	56,173
Supplies	1,101	27,833	14,812	4,883	48,629
Security Services	47,999	-	-	-	47,999
Museum Shop - Cost of Sales	-	-	46,434	-	46,434
Licenses, Fees and Taxes	1,835	2,899	32,520	7,592	44,846
Class and Lecture Fees	41,249	1,122	-	-	42,371
Advertising	10,935	-	2,961	21,541	35,437
Professional Fees / Contract Fees	4,330	1,457	25,815	255	31,857
Postage and Shipping	15,642	42	2,293	12,003	29,980
Insurance	6,060	-	22,356	-	28,416
Equipment Rentals	5,072	-	7,160	733	12,965
Dues and Subscriptions	2,023	35	3,667	852	6,577
	<u>\$ 555,322</u>	<u>\$ 297,558</u>	<u>\$ 812,307</u>	<u>\$ 384,153</u>	<u>\$ 2,049,340</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2010**

	Exhibitions	Education	Operations and Administration	Fundraising/ Development	Total
Salaries and Benefits	\$ 171,804	\$ 118,106	\$ 404,254	\$ 76,406	\$ 770,570
Utilities	57,078	49,944	30,680	4,994	142,696
Depreciation	48,855	42,748	26,260	4,275	122,138
Printing / Promotional	45,358	1,145	10,750	32,679	89,932
Meetings / Hospitality	2,900	1,271	13,001	72,330	89,502
Repairs and Maintenance	29,166	25,521	15,677	2,552	72,916
Other	17,252	9,798	2,400	36,586	66,036
In-Kind Expense	44,352	250	-	4,168	48,770
Security Services	48,137	-	-	-	48,137
Licenses, Fees and Taxes	1,506	1,495	33,295	9,767	46,063
Miscellaneous	4,020	4,122	15,723	20,105	43,970
Travel	405	624	4,941	37,342	43,312
Museum Shop - Cost of Sales	-	-	35,816	-	35,816
Supplies	1,363	13,273	14,558	6,181	35,375
Advertising	5,721	-	5,155	16,551	27,427
Postage and Shipping	6,425	16	1,921	15,918	24,280
Class and Lecture Fees	20,269	1,150	-	-	21,419
Professional Fees / Contract Fees	5,511	844	12,400	220	18,975
Insurance	-	-	18,406	-	18,406
Dues and Subscriptions	1,150	95	7,540	3,415	12,200
Equipment Rentals	5,028	-	5,786	395	11,209
	<u>\$ 516,300</u>	<u>\$ 270,402</u>	<u>\$ 658,563</u>	<u>\$ 343,884</u>	<u>\$ 1,789,149</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2,011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 355,642	\$ 162,602
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	122,087	122,138
Realized and Unrealized Gain on Investments	(675,883)	(413,258)
Contributions restricted for art acquisition	(101,094)	-
(Increase) Decrease in Assets:		
Governmental Support Receivable	4,487	(30,273)
Sponsorships Receivable	27,285	(24,855)
Other Receivables	(40,434)	(2,779)
Inventory - Museum Shop	8,148	(2,967)
Prepaid Expenses	16,718	(32,750)
Increase (Decrease) in Liabilities:		
Accounts Payable	13,692	(17,315)
Accrued Expenses	(1,834)	(2,504)
Deferred Revenues	(24,740)	18,063
Net Cash Used by Operating Activities	<u>(295,926)</u>	<u>(223,898)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(53,213)	(16,241)
Proceeds from Sale of Investments	934,727	529,293
Purchase of Investments	(794,499)	(306,276)
Net Cash Provided by Investing Activities	<u>87,015</u>	<u>206,776</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for art acquisition	<u>101,094</u>	<u>-</u>
<b>NET CHANGE IN CASH</b>	(107,817)	(17,122)
Cash and Cash Equivalents, Beginning of Year	<u>482,863</u>	<u>499,985</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 375,046</u>	<u>\$ 482,863</u>

See accompanying Notes to Financial Statements.

**POLK MUSEUM OF ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Polk Museum of Art, Inc.'s (Museum) vision statement is "Polk Museum of Art will be a leading innovator among Central Florida's visual arts museums." Polk Museum's mission statement is "As an arts leader in Florida, Polk Museum of Art educates and inspires the community through creative and diverse exhibitions and collections, cultural alliances, and compelling events and programs". The Museum is primarily supported through governmental, fundraising and sponsorship revenues.

The Museum was incorporated June 22, 1966, as Youth Museum of Imperial Polk County, Inc. It operated under several names prior to changing to Polk Museum of Art, Inc. in July, 1985. The Museum opened its current facility at 800 East Palmetto Street, Lakeland, Florida in September 1988. The American Association of Museums renewed the Museum's 10-year accreditation in March 2011.

**Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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 support, revenues and expenses during the reporting period including grant and contract revenues subject to review by applicable funding agencies. Accordingly, actual results could differ from those estimates.

**Basis of Presentation**

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

**Unrestricted** – Resources not subject to donor-imposed stipulations.

**Temporarily Restricted** – Resources subject to donor-imposed stipulations that may be met by actions of the Organization and/or the passage of time. The Museum's temporarily restricted net assets consist of funds donated for art acquisition.

**Permanently Restricted** – Resources subject to donor-imposed stipulations requiring that they be maintained permanently by the Museum. The Museum's permanently restricted net assets consist of two cultural endowment funds (Florida Fine Arts and Cultural Endowment Funds). At June 30, 2011 and 2010, endowment principal was held for investment in various banks and brokerage houses. Income earned on the endowment funds is used for operations, art acquisition, scholarships and library purchases. There was no change in the permanently restricted net assets during 2011 and 2010.

**POLK MUSEUM OF ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

**Revenue Recognition**

The Museum recognizes all contributed support received as an increase in net assets in the period received. Contributed support is reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted or as temporarily restricted depending on whether there is an explicit, donor-imposed time requirement as to how long the assets must be maintained. Long-lived assets are reported as permanently restricted only if the Museum must maintain the assets in perpetuity or if the donor explicitly restricted the proceeds from any future disposition of the assets to reinvestment in long-lived assets.

**Cash and Cash Equivalents**

For purposes of financial statement presentation and reporting of cash flows, cash and cash equivalents include cash held in checking accounts, money market funds, and certificates of deposit, which are readily convertible to cash and are stated at cost, which approximates market. Short-term cash equivalents that are managed as part of long-term investment strategies are included with investments.

**Accounts Receivable**

The Museum's accounts receivable mainly consists of amounts receivable from governments and governmental agencies for grants and appropriations and sponsors for sponsorships of various Museum activities. The Museum considers its receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

**Deferred Revenue**

Deferred revenue represents money which has been received for future activities. These revenues will be recognized as income when the activities have occurred.

**Inventory – Museum Shop**

Inventory is valued at the lower of cost or market on a first in, first out basis.

**POLK MUSEUM OF ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Investments**

Investments are recorded in accordance with *Accounting for Certain Investments Held by Not-for-Profit Organizations*. As such, investments in marketable securities with readily determinable fair values are reported at fair value in the statement of financial position. Fair value is determined by reference to exchange or dealer-quoted process. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Unrealized gains and losses are included in the statement of activities.

**Fair Value Measurement**

The Museum measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Museum may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

The inputs used to measure fair value are categorized into the following three categories:

*Level 1* – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Museum has the ability to access quoted prices as of the measurement date.

*Level 2* – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

*Level 3* – Inputs that are unobservable. Unobservable inputs reflect the Museum's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

Following is a description of the valuation methodologies used for assets measured at fair value.

**POLK MUSEUM OF ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Government Securities** – Valued at the closing price reported on the active market on which the individual securities are traded.

**Mutual Funds** – Valued at the closing price reported on the active market on which the individual funds are traded.

**Stocks** – Valued at the closing price reported on the active market on which the individual funds are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

The Museum has the option to elect to measure financial instruments at fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Museum has not elected to measure any existing financial instruments at fair value at June 30, 2011. However, the Museum may elect to measure newly acquired financial instruments at fair value in the future.

**Property and Equipment**

It is the Museum's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Building and Improvements	39 - 50
Furniture and Equipment	5 - 15
Automobiles	4

**Collection Items**

In conformity with industry practice, art purchased and donated is not recorded in the accompanying statement of financial position. Even though not recorded, the Museum's collections represent one of its most valuable assets. The Museum added 30 works of art to its active permanent collection from July 01, 2010 through June 30, 2011. The works of art in the collection total 2,665 pieces as of June 30, 2011.

**POLK MUSEUM OF ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Collection Items (continued)**

The Museum employs a full-time curator to manage stewardship of the collection, under the direction of the Executive Director and the board of trustees' collections and acquisitions policy with committee oversight. Each piece is numbered and catalogued in a continuous inventory. The collection is never to be used as a financial asset for the Museum and is maintained for its inherent artistic, cultural and educational value.

For the years ended June 30, 2011 and 2010, the Museum had accessions of contributed art of \$158,825 and \$93,450, and purchases of \$49,355 and \$16,088, respectively.

**In-Kind Revenue**

The Museum records various types of in-kind revenue including contributed facilities, professional services, advertising and materials. Contributed professional services totaled \$49,494 and \$6,674 for the years ended June 30, 2011 and 2010, respectively. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind revenues are offset by like amounts included in expenses.

A substantial number of volunteers have donated in excess of 3,500 hours to the Museum's program services during the years ended June 30, 2011 and 2010; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Additionally, the Museum receives a significant amount of skilled, contributed time which would otherwise have to be purchased. The value of this contributed time has been estimated and is reflected in the accompanying financial statements.

**Advertising**

Advertising costs are expensed as incurred.

**Tax Status**

The Museum is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for Federal and state income taxes has been recorded in the accompanying financial statements.

The Museum has adopted the standard for accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

**POLK MUSEUM OF ART, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Tax Status (continued)**

The Museum's tax returns are subject to review and examination by Federal and state authorities. The Museum is not aware of any activities that would jeopardize its tax-exempt status. The Museum is not aware of any activities that are subject to tax on unrelated business income or excise taxes. The tax returns for the fiscal years ending 2008 to 2011 are open to examination by Federal and state authorities.

**Functional Expenses**

The Museum allocates its expenses on a functional basis to its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are primarily allocated based on the amount of employee time involved.

**Subsequent Events**

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through September 26, 2011, the date the financial statements were available to be issued.

**NOTE 2 CONCENTRATION OF CREDIT RISK**

The Museum maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Museum has not experienced any losses in such accounts.

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30:

	<b>2011</b>	<b>2010</b>
Land	\$ 684,399	\$ 684,399
Building and Improvements	4,166,733	4,160,942
Furniture and Equipment	652,766	605,344
	<u>5,503,898</u>	<u>5,450,685</u>
Less: Accumulated Depreciation	(2,587,940)	(2,465,853)
	<u>\$ 2,915,958</u>	<u>\$ 2,984,832</u>

Depreciation expense totaled \$122,087 and \$122,138 for the years ended June 30, 2011 and 2010, respectively.

**POLK MUSEUM OF ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 4 INVESTMENTS**

The Museum maintains investments in stocks, bonds, mutual and money market funds at various financial institutions and brokerage houses. Of the total investments at June 30, 2011 and 2010, \$147,722 and \$286,081 was invested in cash equivalents, respectively.

Long-term investments are held in two investment groups. Group A is for permanent endowments and unappropriated net appreciation of those endowments. Group A investments are those primarily associated with the Florida Fine Arts and Cultural Endowment Funds. Group B is for other amounts, including the general endowment fund, which are designated by the board of trustees for long-term investment.

Investments are carried at fair value and consist of the following as of June 30:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Long-Term Investments:				
Endowment Fund:				
Stocks	\$ 942,041	\$ 808,732	\$ 752,231	\$ 803,756
Government Securities	168,614	168,711	363,868	355,241
Mutual funds:				
Fixed Income	958,375	933,469	1,049,654	983,357
Equity	761,151	709,400	463,433	591,588
Alternative Investment	28,326	31,000	-	-
International Equity	-	-	327,665	393,499
Other	1,518,687	1,532,710	884,688	1,067,875
Total	<u>\$ 4,377,194</u>	<u>\$ 4,184,022</u>	<u>\$ 3,841,539</u>	<u>\$ 4,195,316</u>

A summary of the return on investments is as follows as of June 30:

	2011	2010
Realized and Unrealized Gain (Loss)	<u>\$ 675,883</u>	<u>\$ 413,258</u>

**NOTE 5 FAIR VALUE MEASUREMENTS**

The Museum uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Museum values all other assets and liabilities refer to Note 1 – Museum and Summary of Significant Accounting Policies.

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**NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents the fair value hierarchy for the balances of the assets of the Museum measured at fair value on a recurring basis as of June 30:

2011	Level 1	Level 2	Level 3	Total
Assets:				
Stocks	\$ 942,041	\$ -	\$ -	\$ 942,041
Government Securities	168,614	-	-	168,614
Mutual Funds:				
Fixed Income	958,375	-	-	958,375
Equity	761,151	-	-	761,151
Alternate Investment	28,326	-	-	28,326
Other	1,518,687	-	-	1,518,687
Total	<u>\$ 4,377,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,377,194</u>
2010	Level 1	Level 2	Level 3	Total
Assets:				
Stocks	\$ 752,231	\$ -	\$ -	\$ 752,231
Government Securities	363,868	-	-	363,868
Mutual Funds:				
Fixed Income	1,049,654	-	-	1,049,654
Equity	463,433	-	-	463,433
International Equity	327,665	-	-	327,665
Other	884,688	-	-	884,688
Total	<u>\$ 3,841,539</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,841,539</u>

**NOTE 6 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of cash restricted to purchase art in the amount of \$51,739 as of June 30, 2011. There were no temporarily restricted net assets as of June 30, 2010, respectively.

**NOTE 7 PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets as of June 30, 2011 and 2010 consisted of \$1,200,000. These monies are permanently restricted for the State of Florida's Fine Arts and Cultural Endowment Fund as further described in Note 8.

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**NOTE 8 ENDOWMENTS**

In September, 1986, the Museum entered into a Trust Agreement with the Division of Cultural Affairs, State of Florida, Department of State, whereby the State of Florida granted \$240,000 to the Museum, to be matched with \$360,000 of Museum funds, to make an endowment totaling \$600,000. The Museum may expend the investment proceeds of the endowment only for fine art activity operating costs. The Trust Agreement imposes operating and financial reporting requirements on the Museum. The grant will revert to the State of Florida if the Museum ceases to operate, is no longer a qualified sponsoring organization, files for bankruptcy, expends a portion of the endowment principal, or willfully violates provisions of the Trust Agreement.

In October, 2000, the Museum entered into a Trust Agreement with the Division of Cultural Affairs, State of Florida, Department of State, whereby the State of Florida granted \$240,000 to the Museum, to be matched with \$360,000 of Museum funds, to make an endowment totaling \$600,000. The Museum may expend the investment proceeds of the endowment only for cultural activity operating costs. The Trust Agreement imposes operating and financial reporting requirements on the Museum. The grant will revert to the State of Florida if the Museum ceases to operate, is no longer a qualified sponsoring organization, files for bankruptcy, expends a portion of the endowment principal, or willfully violates provisions of the Trust Agreement.

The Museum's endowment consists primarily of funds established by the board of trustees in prior years through donations and the growth of those funds over the years. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Endowment Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As noted above, the two Trust Agreements with the Division of Cultural Affairs, totaling \$1,200,000, are classified as permanently restricted net assets. Income, realized and unrealized gains and losses and unrestricted contributions have been classified as unrestricted net assets designated by the board of trustees for endowment.

The endowment net asset composition by type of fund is as follows at June 30, 2011:

	Unrestricted: Board Designated	Permanently Restricted	Total Net Endowment Assets
Donor Restricted	\$ -	\$ 1,200,000	\$ 1,200,000
Board Designated	3,273,177	-	3,273,177
Total	<u>\$ 3,273,177</u>	<u>\$ 1,200,000</u>	<u>\$ 4,473,177</u>

**POLK MUSEUM OF ART, INC.**  
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**NOTE 8 ENDOWMENTS (CONTINUED)**

The endowment net asset composition by type of fund is as follows at June 30, 2010:

	Unrestricted: Board Designated	Permanently Restricted	Total Net Endowment Assets
Donor Restricted	\$ -	\$ 1,200,000	\$ 1,200,000
Board Designated	2,927,620	-	2,927,620
Total	<u>\$ 2,927,620</u>	<u>\$ 1,200,000</u>	<u>\$ 4,127,620</u>

Changes to endowment net assets are as follows for the year ended June 30, 2011:

	Unrestricted: Board Designated	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	\$ 2,927,620	\$ 1,200,000	\$ 4,127,620
Contributions	-	-	-
Investment Return:			
Investment Income	89,039	-	89,039
Net Appreciation	675,883	-	675,883
Investment Fees	(29,748)	-	(29,748)
Total Investment Return	<u>735,174</u>	-	<u>735,174</u>
Appropriation of Endowment:			
Assets for Expenditures	<u>(389,617)</u>	-	<u>(389,617)</u>
Endowment Net Assets, End of Year	<u>\$ 3,273,177</u>	<u>\$ 1,200,000</u>	<u>\$ 4,473,177</u>

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**NOTE 8 ENDOWMENTS (CONTINUED)**

Changes to endowment net assets are as follows for the year ended June 30, 2010:

	Unrestricted: Board Designated	Permanently Restricted	Total Net Endowment Assets
Endowment Net Assets, Beginning of Year	\$ 2,779,957	\$ 1,200,000	\$ 3,979,957
Contributions	-	-	-
Investment Return:			
Investment Income	85,965	-	85,965
Net Depreciation	413,258	-	413,258
Investment Fees	(29,419)	-	(29,419)
Total Investment Return	469,804	-	469,804
Appropriation of Endowment:			
Assets for Expenditures	(259,141)	-	(259,141)
Release from Board Designation	(63,000)	-	(63,000)
Endowment Net Assets, End of Year	<u>\$ 2,927,620</u>	<u>\$ 1,200,000</u>	<u>\$ 4,127,620</u>

**Interpretation of Uniform Prudent Management of Institutional Funds**

During 2011, the State of Florida has enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) enhanced disclosure required by Accounting Standard Codification Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the UPMIFA, and Enhanced Disclosure for All Endowment Funds, which becomes effective July 1, 2012. The board of trustees of the Museum is 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 which is a valid interpretation of UPMIFA.

As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted board designated until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by the board of trustees. The Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

**POLK MUSEUM OF ART, INC.**  
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**NOTE 8 ENDOWMENTS (CONTINUED)**

**Interpretation of Uniform Prudent Management of Institutional Funds (Continued)**

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization 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 Organization
- 7) The investment policies of the Organization.

**Investment Return Objectives and Risk Parameters**

The Museum 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 Museum must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is according to the investment policies of the board of trustees. Acceptable investments under the policy are intended to produce an absolute annualized rate of return of 8.5% and to exceed the rate of inflation (as measured by the Consumer Price Index) by 6.0%.

**Strategies Employed for Achieving Objectives**

The purpose of the endowment fund is to facilitate donors' desires to make substantial long-term gifts to the Museum and to develop a new and significant source of revenue for the Museum. In so doing, the endowment fund will provide a secure, long-term source of funds to use for: (a) operations; (b) art acquisition; (c) scholarships; and (d) library purchases.

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

The investment policies, as established by the board of trustees, allow for an amount equal to 6% of a three-year rolling average of the net market value of the endowments at March 31 to be allocated for the operating and program budget of the Museum during the ensuing fiscal year. The Museum stayed within these board-adopted policies for the fiscal years ended June 30, 2011 and 2010.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Museum policies requires to retain as a fund of perpetual duration. If this were to occur, the Museum would not expend any monies from the fund until the fair market value of the fund returns to a level above the principal. The Museum does not have any deficiencies as of June 30, 2011 and 2010.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 9 LINE OF CREDIT**

The Museum has a \$225,000 revolving credit agreement with a bank. Principal payments are due upon demand. The revolving credit agreement is unsecured, and bears interest at a variable rate equal to the Wall Street Journal prime rate but at no time greater than 18% or less than 4%. At June 30, 2011, the prime rate was 3.25%; therefore, the line of credit rate was 4% at that time. At June 30, 2011 and 2010, \$225,000 was available to the Museum for draws under this agreement. No interest has been paid on this line of credit during the fiscal years ended June 30, 2011 and 2010.

**NOTE 10 OPERATING LEASES**

The Museum has leased equipment under various noncancellable agreements that expire in January 2012 and require various minimum annual rentals. The Museum paid \$14,725 and \$14,628 for lease expense during the years ended June 30, 2011 and 2010, respectively. The future minimum lease payments as of June 30, 2011 that are due through June 30, 2012 are \$3,016.

**NOTE 11 EMPLOYEE BENEFIT PLAN**

The following brief description of the Polk Museum of Art, Inc. Teacher's Insurance and Annuity Association/College Retirement Equities Fund Plan (TIAA-CREF) is provided for general information purposes only. Participants should refer to the plan agreement for a more complete description of the plan's provisions.

**General**

The Polk Museum of Art, Inc. TIAA-CREF Plan was established, effective July 1, 1997, to provide benefits to all employees of the Museum who meet certain eligibility requirements. The TIAA-CREF Plan is a defined contribution plan in which the Museum will make contributions for qualified employees equaling 3% of gross pay after one year of service and 1,000 hours worked. The monthly contributions made by the Museum for vested employees are invested in separate annuity contracts chosen by each member. Upon reaching retirement age, or separating from service, each employee may specify the manner in which his or her funds are distributed within plan and legal restrictions. The cost to the Museum of the plan for the years ended June 30, 2011 and 2010 is \$17,156 and \$15,638, respectively.