

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED
MARCH 31, 2013
(WITH COMPARATIVE TOTALS FOR
THE YEAR ENDED MARCH 31, 2012)

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
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March 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Orange County Museum of Art
(A Nonprofit Organization)
Newport Beach, California



Report on the Financial Statements

We have audited the accompanying statement of financial position of Orange County Museum of Art (a nonprofit organization) (the "Museum") as of March 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.

Auditor's 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 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 on 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 the Museum as of March 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 Museum's March 31, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 21, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "SingerLewak LLP".

SingerLewak LLP

Irvine, California
September 3, 2013

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
March 31, 2013
(with Comparative Totals for 2012)

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents, unrestricted	\$ 251,969	\$ 714,601
Accounts receivable	2,867	44,373
Contributions receivable - current portion, net	508,001	557,527
Store inventory	31,685	25,325
Prepaid expenses and other current assets	247,767	368,365
Loan receivable - related party	<u>180,000</u>	<u>180,000</u>
Total current assets	<u>1,222,289</u>	<u>1,890,191</u>
Noncurrent assets		
Cash and cash equivalents, restricted	127,236	179,030
Contributions receivable - noncurrent portion, net	1,083,822	103,340
Investments	12,001,943	11,639,738
Property and equipment, net	6,392,300	6,565,569
Collections (Note 2)	-	-
Deposits	<u>73,183</u>	<u>2,292</u>
Total noncurrent assets	<u>19,678,484</u>	<u>18,489,969</u>
Total assets	<u>\$ 20,900,773</u>	<u>\$ 20,380,160</u>

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

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
March 31, 2013
(with Comparative Totals for 2012)

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities		
Accounts payable and accrued expenses	\$ 729,975	\$ 635,529
Line of credit	650,000	-
Total current liabilities	1,379,975	635,529
Commitments and contingencies (Note 10)		
Net assets		
Unrestricted		
Board-designated	4,226,521	4,754,880
Other	1,843,264	1,613,410
Total unrestricted	6,069,785	6,368,290
Temporarily restricted	6,202,755	6,128,083
Permanently restricted	7,248,258	7,248,258
Total net assets	19,520,798	19,744,631
Total liabilities and net assets	\$ 20,900,773	\$ 20,380,160

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

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2013
(with Comparative Totals for 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2013	2012
Revenues and support					
Contributions	\$ 1,649,365	\$ 1,608,797	\$ -	\$ 3,258,162	\$ 2,231,204
Membership dues	98,728	-	-	98,728	127,053
Special events revenue, net of costs of direct benefit to donors of \$228,038 and \$251,585, respectively	396,471	93,000	-	489,471	686,401
Admissions and fees	164,741	-	-	164,741	162,242
Retail operations	132,375	-	-	132,375	133,079
Touring exhibitions	412,563	-	-	412,563	33,792
Space rental	63,594	-	-	63,594	13,225
Interest and dividends income	255,095	-	-	255,095	264,298
Net realized and unrealized gain (loss) on investments	811,476	-	-	811,476	(114,919)
Net assets released from restrictions					
Satisfaction of program restrictions	1,627,125	(1,627,125)	-	-	-
Total revenues and support	5,611,533	74,672	-	5,686,205	3,536,375
Functional expenses					
Program services					
Education and public programs	317,754	-	-	317,754	325,077
Exhibitions	1,552,770	-	-	1,552,770	953,974
Marketing	411,125	-	-	411,125	467,294
Membership activities	153,984	-	-	153,984	193,185
Museum operations and collection management	1,745,396	-	-	1,745,396	1,479,195
Retail operations	125,637	-	-	125,637	143,948
Future building project	452,723	-	-	452,723	386,522
Total program services	4,759,389	-	-	4,759,389	3,949,195
Support services					
General and administrative	466,099	-	-	466,099	464,529
Fundraising	576,688	-	-	576,688	482,446
Total support services	1,042,787	-	-	1,042,787	946,975
Total functional expenses	5,802,176	-	-	5,802,176	4,896,170
Change in net assets before change related to collection items	(190,643)	74,672	-	(115,971)	(1,359,795)
Collection items purchased	(107,862)	-	-	(107,862)	(240,472)
Change in net assets	(298,505)	74,672	-	(223,833)	(1,600,267)
Net assets, beginning of year	6,368,290	6,128,083	7,248,258	19,744,631	21,344,898
Net assets, end of year	\$ 6,069,785	\$ 6,202,755	\$ 7,248,258	\$ 19,520,798	\$ 19,744,631

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

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2013
(with Comparative Totals for 2012)

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ (223,833)	\$ (1,600,267)
Adjustments to reconcile change in net assets to net change in cash from operating activities		
Depreciation and amortization expense	207,352	200,882
Acquisition of art objects	107,862	240,472
Net realized and unrealized (gain) loss on investments	(811,476)	114,919
Change in operating assets and liabilities		
Accounts receivable	41,506	33,437
Contributions receivable, net	(930,956)	424,904
Store inventory	(6,360)	3,489
Prepaid expenses and other current assets	120,598	(98,497)
Deposits	(70,891)	25,874
Accounts payable and accrued expenses	94,446	433,495
	(1,471,752)	(221,292)
Net change in cash from operating activities		
Cash flows from investing activities		
Net proceeds from sale of investments	704,366	778,746
Reinvested interest and dividends	(255,095)	(264,298)
Acquisition of art objects	(107,862)	(240,472)
Purchase of property and equipment	(34,083)	(133,696)
Loan receivable - related party	-	10,000
Decrease in restricted cash	51,794	70,320
	359,120	220,600
Net change in cash from investing activities		
Cash flows from financing activities		
Net borrowings on line of credit	650,000	-
	650,000	-
Net change in cash from financing activities		
Net change in cash and cash equivalents	(462,632)	(692)
Cash and cash equivalents, beginning of year	714,601	715,293
Cash and cash equivalents, end of year	\$ 251,969	\$ 714,601

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

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2013
(with Comparative Totals for 2012)

	<u>2013</u>	<u>2012</u>
(Continued)		
Supplemental schedule of non-cash investing and financing activities		
In-kind contributions and related expenses	<u>\$ 112,763</u>	<u>\$ 28,675</u>
Interest paid	<u>\$ 12,520</u>	<u>\$ 11,115</u>

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

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 1 – GENERAL

The Orange County Museum of Art (the “Museum”), a nonprofit California corporation, is recognized as one of the finest mid-sized museums in America with a renowned collection of 3,000 works, an ambitious exhibition program that rivals that of much larger museums, and groundbreaking education programs that explore new and better ways of connecting the community with modern and contemporary art. Founded in 1962, the Museum is located in Newport Beach, California, draws 50,000 visitors annually and serves a population of more than three million residents in one of the fastest-growing metropolitan areas of the country. The Museum employs 54 full- and part-time staff.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements include a statement of financial position that presents the amounts for each of the three classes of net assets: unrestricted, temporarily restricted and permanently restricted. These net assets are classified based on the existence or absence of donor-imposed restrictions and a statement of activities that reflects the changes in those categories of net assets.

Temporarily restricted net assets include those assets of which use by the Museum has been limited by donors to later periods of time or for specified purposes. Temporarily restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions. Permanently restricted net assets include those net assets that must be maintained in perpetuity; the investment return from such assets may be used for purposes as specified by the donor or, if the donor has not specified a purpose, for purposes as approved by the Board of Trustees.

If, subsequent to the period a restricted gift is made, a donor withdraws previously imposed restrictions, the related net assets are classified into the appropriate net asset category. Such reclassifications are reflected in net assets released from restrictions in the accompanying statement of activities when the restrictions are withdrawn.

Prior-Year Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum’s financial statements for the year ended March 31, 2012, from which the summarized information was derived.

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Support

Annual membership dues are recognized as revenue when such income is received. In addition, the Museum records as revenue the following types of contributions, when they are received unconditionally, at their fair value: certain contributed services, gifts of long-lived assets and other assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions, including endowment gifts and pledges, as well as any other unconditional promises to give, are recorded in the period pledged as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Amounts expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at the Museum's risk-adjusted discount rate at the date of the contribution.

The Museum provides an allowance, as necessary, for uncollectible promises, based on management's evaluation of potential uncollectible contributions receivable at year end. No allowance was recorded as of March 31, 2013 and 2012.

The fundraising efforts of the Museum are supported by the efforts of various groups of volunteers organized in separate councils. These councils organize and facilitate fundraising activities throughout the year, with the proceeds being used to fund Museum programs. The net proceeds generated from these activities are shown as contributions in the statement of activities.

Endowment contributions are permanently restricted by the donor. Investment earnings available for distribution are recorded in temporarily restricted net assets; however, due to the fair value of assets associated with endowment funds falling below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration, the net losses of this nature have been reported in unrestricted net assets for the years ended March 31, 2013 and 2012.

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Services and Facilities

Contributed services, facilities and other non-cash contributions are reflected in the accompanying statements at their estimated fair market value in the period received. Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet the criteria are not recognized in the financial statements, as there is no objective basis of deriving their value.

During the years ended March 31, 2013 and 2012, there were no contributed services or facilities. During the years ended March 31, 2013 and 2012, non-cash contributions amounted to \$112,763 and \$28,675, respectively.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Museum considers all short-term, highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash represents money held for future use and by Museum support groups.

Store Inventories

Store inventories consist of books, posters, jewelry and miscellaneous art objects sold in the Museum's gift shop and are valued at the lower of cost (first-in, first-out method) or market.

Investments

Investments are reflected on the statement of financial position at fair value. Realized and unrealized gains and losses have been reflected in the statement of activities as increases or decreases in unrestricted net assets. The Museum's investments consist of a) equity, fixed-income and money market funds that have active and liquid markets, and b) alternative investments consisting of investments in limited partnerships, private equity funds and derivative instruments. Management establishes fair value of publicly traded securities based on quoted market prices. Investments received through gifts are recorded at estimated fair value at the date of donation. Dividend and interest income is accrued when earned. Dividend and interest income earned in all net asset classifications, except permanently restricted net assets, is recorded in the net asset class owning the assets. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise and when such amounts have been appropriated for expenditure.

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost, or if donated, at fair market value at the date of donation, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the various classes of property, as follows:

Buildings and improvements	15 to 30 years
Equipment	5 to 10 years

Repair and maintenance costs are charged to operations as incurred.

Impairment of Long-Lived Assets

The Museum reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment losses, if any, are recognized when estimated future cash flows (undiscounted and without interest charges) derived from such assets are less than their carrying values. Management determined that no impairment existed as of March 31, 2013 or 2012.

Collections

In conformity with the practice followed by many museums, art objects purchased by or donated to the Museum are not capitalized in the statement of financial position. Collections of art objects are held for public exhibition, education or research; are protected, kept unencumbered and preserved; and are subject to requirements such that proceeds from sales of collection items be used to acquire other items for the collection. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or in temporarily restricted net assets if the net assets used to purchase the items are restricted by donors. Contributed collection items are excluded from the financial statements. The Museum purchased collection items in the amount of \$107,862 and \$240,472 during the years ended March 31, 2013 and 2012, respectively. The Museum received donated art objects valued at approximately \$495,162 and \$94,500 during the years ended March 31, 2013 and 2012, respectively, as well as other art objects whose value is not determinable at this time.

Proceeds from deaccession or insurance recoveries are reflected as increases in the appropriate net asset classes in the statement of activities. The Museum recorded no deaccession proceeds during the years ended March 31, 2013 and 2012, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising expenses are charged to expense as incurred. For the years ended March 31, 2013 and 2012, advertising expense amounted to \$50,473 and \$78,221, respectively.

Income Taxes

The Museum is a Section 501 (c)(3) organization, exempt from federal income taxes under Section(a) of the U.S. Internal Revenue Code (the "Code") and has been classified as an organization that is not a private foundation as defined in Section 509(a)(1) of the Code. In addition, the State of California has classified the Museum as nonprofit in character and as such, it is exempt from payment of income taxes to the State of California. Accordingly, no provision has been made for income taxes in the financial statements.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, now referred to as Accounting Standards Codification Topic No. 740 ("ASC 740"). ASC 740 clarifies the accounting for uncertainty in income tax positions taken or expected to be taken in tax returns that affect amounts reported in an organization's financial statements in accordance with the *Accounting for Income Taxes* Topic of ASC 740 (formerly SFAS 109, *Accounting for Income Taxes*). ASC 740 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. ASC 740 also provides guidance related to de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. During the years ended March 31, 2013 and 2012, the Museum performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the statement of activities or which may have an effect on its tax-exempt status.

The Museum recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the years ended March 31, 2013 and 2012, the Museum did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

The following table summarizes the open tax years for each major jurisdiction:

<u>Jurisdiction</u>	<u>Open Tax Years</u>
Federal	2009 - 2012
California	2008 - 2012

Use of Estimates

The preparation of 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Fair Value of Financial Instruments

As defined in FASB Accounting Standards Codification Topic No. 820, *Fair Value Measurements and Disclosures* (“ASC 820”) (formerly SFAS No. 157, *Fair Value Measurements*), fair value is 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. In determining fair value, the Museum uses the market or income approach. Based on this approach, the Museum utilizes certain assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Museum is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the fiscal years ending March 31, 2013 and 2012, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Financial instruments included in the Museum’s statement of financial position include cash and cash equivalents, accounts receivable, contributions receivable, accounts payable and accrued expenses. The carrying amounts represent a reasonable estimate of fair values due to their short-term maturity. The carrying amounts reported for debt obligations approximate fair value due to the effective interest rate of these obligations reflecting the Museum’s current borrowing rate.

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material effect on the Museum's financial statements.

Recently Issued Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update No. 2012-04, *Technical Corrections and Improvements*, to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, the amendments will make the Codification easier to understand and the fair value measurement guidance easier to apply by eliminating inconsistencies and providing needed clarifications. The amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. Management does not believe the adoption of these rules will have a material impact on the Museum's financial statements.

Concentration of Credit and Market Risk

Certain financial instruments held by the Museum potentially subject the Museum to concentrations of credit risk. Financial instruments which potentially subject the Museum to concentrations of credit and market risk consist primarily of cash and cash equivalents, investments, contribution and account receivables, and contribution revenues.

Cash and Cash Equivalents

The Museum maintains its cash and cash equivalents in several financial institutions that, from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). Effective December 31, 2010, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), all funds in non-interest-bearing accounts were fully insured and funds in interest-bearing accounts were insured up to \$250,000 by the FDIC. As scheduled, the unlimited insurance coverage for non-interest-bearing transaction accounts provided under Dodd-Frank expired on December 31, 2012. Deposits held in non-interest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to \$250,000. As of March 31, 2013 and 2012, Museum deposits exceeded insured amounts by \$132,239 and \$100,555, respectively. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit and Market Risk (Continued)

Investments

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

Contributions and Account Receivables

The Museum routinely assesses the financial strength of its debtors and believes that the related credit risk exposure is limited.

Contribution Revenues

For the year ended March 31, 2013, there were two donors that accounted for 61% of contribution revenues. For the year ended March 31, 2012, there was one donor that accounted for 22% of contribution revenues.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

At March 31, 2013 and 2012, the Museum had the following contributions receivable:

	<u>2013</u>	<u>2012</u>
Due within one year	\$ 522,081	\$ 584,000
Present value discount	<u>(14,080)</u>	<u>(26,473)</u>
Contributions receivable - current portion, net	<u>508,001</u>	<u>557,527</u>
Due between one to five years	1,290,000	110,000
Present value discount	<u>(206,178)</u>	<u>(6,660)</u>
Contributions receivable - noncurrent portion, net	<u>1,083,822</u>	<u>103,340</u>
Total contributions receivable, net	<u>\$ 1,591,823</u>	<u>\$ 660,867</u>

The Museum uses a risk-adjusted discount rate of 4% to calculate the present value discount for contributions receivable.

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 4 – INVESTMENTS

The Museum’s investments consist of operating reserves, funds functioning as endowment, and funds which have been restricted by the donor as endowment. The Museum’s investments are managed as a single diversified portfolio governed by the Museum’s Investment Policy, which sets asset allocation ranges for marketable and non-marketable investments, as well as equity and fixed-income investments. The Museum’s Investment Policy is administered by the Museum’s Finance Committee. The Finance Committee establishes the fair market value of Level 1 investments based on quoted market prices. The Finance Committee establishes Level 2 investments, if any, through observation of trading activity reported at net asset value. The Finance Committee establishes Level 3 investments, if any, through a documented valuation process including review of audited reports for the investment funds, verification of the fair value of marketable securities in the funds, regular review of fund manager valuation approaches, and monitoring of fund activities.

Investments at March 31, 2013 and 2012 are stated at fair value and consisted of the following:

	2013	2012
Money market	\$ 1,727	\$ 11,917
Fixed income	3,282,002	3,037,166
Domestic equities	5,432,428	4,913,245
International equities	1,692,860	1,601,565
Alternative investments	1,592,926	2,075,845
Total investments	<u>\$ 12,001,943</u>	<u>\$ 11,639,738</u>

As of March 31, 2013, the Museum’s investments were classified by level within the valuation hierarchy as follows:

	2013			
	Level 1	Level 2	Level 3	Total
Money market	\$ 1,727	\$ -	\$ -	\$ 1,727
Fixed income	3,282,002	-	-	3,282,002
Domestic equities	5,432,428	-	-	5,432,428
International equities	1,692,860	-	-	1,692,860
Alternative investments	198,989	-	1,393,937	1,592,926
Total	<u>\$ 10,608,006</u>	<u>\$ -</u>	<u>\$ 1,393,937</u>	<u>\$ 12,001,943</u>

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 4 – INVESTMENTS (Continued)

As of March 31, 2012, the Museum’s investments were classified by level within the valuation hierarchy as follows:

	2012			
	Level 1	Level 2	Level 3	Total
Money market	\$ 11,917	\$ -	\$ -	\$ 11,917
Fixed income	3,037,166	-	-	3,037,166
Domestic equities	4,913,245	-	-	4,913,245
International equities	1,601,565	-	-	1,601,565
Alternative investments	200,825	-	1,875,020	2,075,845
Total	\$ 9,764,718	\$ -	\$ 1,875,020	\$ 11,639,738

For the year ended March 31, 2013, the changes in fair value of the Museum’s Level 3 investments were as follows:

Beginning balance, March 31, 2012	\$ 1,875,020
Transfers to other funds	(616,121)
Realized and unrealized gain, net	135,038
Ending balance, March 31, 2013	\$ 1,393,937

Total realized and unrealized net gain on investments for the year ended March 31, 2013 amounted to \$811,476 and total realized and unrealized net loss on investments for the year ended March 31, 2012 amounted to \$114,919.

The Museum is a limited partner in a limited partnership investment and has a commitment for future capital calls in the aggregate amount of \$36,000.

ORANGE COUNTY MUSEUM OF ART
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March 31, 2013 and 2012

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,774,076	\$ 1,774,076
Land held for future use (Note 7)	2,520,000	2,520,000
Buildings and improvements	4,398,589	4,364,507
Equipment and furniture	<u>441,345</u>	<u>441,345</u>
	9,134,010	9,099,928
Less accumulated depreciation and amortization	<u>2,741,710</u>	<u>2,534,359</u>
Property and equipment, net	<u>\$ 6,392,300</u>	<u>\$ 6,565,569</u>

For the years ended March 31, 2013 and 2012, depreciation and amortization expense amounted to \$207,352 and \$200,882, respectively.

NOTE 6 – LINE OF CREDIT

The Museum maintains a revolving line of credit with a financial institution that allows the Museum to borrow a maximum of \$650,000 for working capital purposes. Advances bear interest at the greater of Prime (3.25% as of March 31, 2013) plus 0.25%, or 3.50%. As of March 31, 2013, there was no available balance on the line of credit. The line of credit matures in September 2013.

The line of credit agreement contains certain financial and non-financial covenants, including submitting year-end financial statements within 120 days of fiscal year end, with which the Museum was in compliance as of March 31, 2013.

ORANGE COUNTY MUSEUM OF ART
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NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 7 – NET ASSETS

Unrestricted Net Assets

Unrestricted net assets consisted of the following at March 31:

	2013	2012
Board-designated	\$ 4,226,521	\$ 4,754,880
Property and equipment	2,170,369	2,316,384
Endowment losses	(2,494,688)	(2,910,000)
Other	2,158,583	2,207,026
Total	\$ 6,060,785	\$ 6,368,290

Temporarily Restricted Net Assets

The change in temporarily restricted net assets by fund is summarized as follows:

	Balance at April 1, 2012	Contributions and Grants	Released from Restriction	Balance at March 31, 2013
Programs and education	\$ 1,304,817	\$ 164,257	\$(1,039,286)	\$ 429,788
Land held for future use	2,520,000	-	-	2,520,000
Land and buildings	1,729,185	-	(27,254)	1,701,931
Art acquisitions	451,850	17,600	(107,862)	361,588
Future building project	122,231	1,519,940	(452,723)	1,189,448
Total	\$ 6,128,083	\$ 1,701,797	\$(1,627,125)	\$ 6,202,755

Land Held for Future Use – Temporarily Restricted

On June 2, 2008, the Museum received title to certain real property with an estimated fair value of \$2,520,000, subject to certain restrictions and obligations contained in the related Agreement to Transfer Land (the “Transfer Agreement”). Within the Transfer Agreement, the donated real property is required to be used for a world class visual arts museum. It also requires the Museum to design, develop, construct and obtain necessary financing, as set forth in a defined project schedule. Accordingly, the Museum has recognized the estimated fair value of the real property as a temporarily restricted contribution.

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NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 7 – NET ASSETS (Continued)

Temporarily Restricted Net Assets (Continued)

Land and Buildings – Temporarily Restricted

On November 22, 1995, The Irvine Company gifted to the Museum the adjacent land and building which formerly housed the Newport Beach Public Library. Under the terms of the agreement, the facility must be used exclusively as an art museum. The agreement also provides The Irvine Company with an option to reacquire the property in the event of a sale, lease, conveyance, exchange or encumbrance of the property for other than the construction of museum facility improvements, for a period of 60 years.

Permanently Restricted Net Assets

As of March 31, 2013 and 2012, \$7,248,258 of the Museum's total cash and investments are permanently restricted.

NOTE 8 – ENDOWMENT

The Museum's endowment funds consist of funds functioning as endowment through (a) designation by the Board, and (b) donor-restricted endowment funds. The earnings of the Museum's endowment funds support the mission of the Museum. Net assets associated with endowment funds, including funds designated by the Board to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which replaces UMIFA. In August 2008, the FASB issued Accounting Standards Codification No. 958, *Not-for-Profit Entities* ("ASC 958"). The disclosure provisions of ASC 958 were applied by the Museum in the years ended March 31, 2013 and 2012.

At March 31, 2013, the Museum's endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 4,337,470	\$ -	\$ -	\$ 4,337,470
Donor-restricted endowment funds	<u>(818,604)</u>	<u>-</u>	<u>7,248,258</u>	<u>6,429,654</u>
Total endowment funds	<u>\$ 3,518,866</u>	<u>\$ -</u>	<u>\$ 7,248,258</u>	<u>\$ 10,767,124</u>

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 8 – ENDOWMENT (Continued)

For the year ended March 31, 2013, the Museum’s endowment net assets changed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance at March 31, 2012	\$ 3,103,554	\$ -	\$ 7,248,258	\$ 10,351,812
Investment return				
Investment income, net of management fees of \$23,734	163,880	-	-	163,880
Net realized and unrealized gain	<u>770,230</u>	<u>-</u>	<u>-</u>	<u>770,230</u>
Total investment return	934,110	-	-	934,110
Other changes				
Related party loan repayment	9,000	-	-	9,000
Appropriations of amounts for expenditure	<u>(527,798)</u>	<u>-</u>	<u>-</u>	<u>(527,798)</u>
Total endowment funds	<u>\$ 3,518,866</u>	<u>\$ -</u>	<u>\$ 7,248,258</u>	<u>\$ 10,767,124</u>

The Museum continues to closely monitor its investment portfolio to ensure that it meets its long-term objectives and risk parameters outlined in its investment objective policy.

In conformity with generally accepted accounting principles, investment income on the Museum’s endowment is recorded as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

Return Objectives and Risk Parameters

Endowment assets include donor-restricted funds that the Museum must hold in perpetuity. The Museum has adopted investment and spending policies for endowment assets that attempt to preserve the real purchasing power of the endowment fund and to provide a relatively predictable and stable stream of current income for annual operational needs. Under this policy, the Museum expects its endowment funds, over time, to provide an average minimum long-term real return of at least 5% annually, after inflation and net of management fees.

ORANGE COUNTY MUSEUM OF ART
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NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 8 – ENDOWMENT (Continued)

Return Objectives and Risk Parameters (Continued)

To satisfy its long-term rate-of-return objectives, the Museum 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 Museum 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.

From time to time, the fair value of assets associated with endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$818,604 and \$1,376,414 as of March 31, 2013 and 2012, respectively.

Spending Policy

Endowment assets are governed by a spending policy that seeks to distribute up to five percent of the market value of the investment portfolio as a whole – calculated on a two year, quarterly average. To protect the intrinsic value of the endowment assets against the unexpected impact of inflation, the Museum’s Finance Committee shall set a payout rate for the endowment assets’ earnings and income that provides a preset rate of real growth of the portfolio while also providing a relatively constant and predictable funding stream. The main objective is to maintain or grow the real (inflation-adjusted) value of the portfolio after accounting for the overall spending. To achieve this objective, the expected long-term total return of the portfolio is expected to meet or exceed the spending rate (5%) plus inflation, as measured by an appropriate benchmark, such as the Consumer Price Index.

Earnings and income in excess of the payout rate are reinvested in the portfolio according to the Museum’s investment policy.

If the payout rate exceeds the endowment yield, then previously reinvested income and accumulated realized gains are transferred to current funds to ensure the payout rate. In addition, the Museum’s Finance Committee is authorized to pay reasonable fees and expenses, primarily management fees, from the endowment portfolio.

The distribution of endowment spending or draw must be incorporated into the Museum’s annual budget and, consequently, reviewed and approved by the Museum’s Board of Trustees. The distribution may be timed to provide maximum benefit to the Museum’s overall cash flow needs. By special action and upon the recommendation of the Museum’s Finance Committee, the Board of Trustees may temporarily suspend the five percent distribution. Such action would require a vote of the Board of Trustees. Distributions may trigger an evaluation of the portfolio’s asset allocation as established by the investment policy.

During the years ended March 31, 2013 and 2012, the Board of Trustees authorized for the endowment draw to come out of the funds managed as endowment.

ORANGE COUNTY MUSEUM OF ART
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NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 9 – RETIREMENT PLAN

The Museum offers its employees a tax sheltered Custodial Account plan to provide retirement benefits in accordance with Section 403(b) of the Internal Revenue Code. The plan permits participants to defer a portion of their current salary until future years. As of March 31, 2013 and 2012, there were 4 and 7 participants, respectively, in this plan.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Museum leases certain office equipment, storage facilities and parking spaces under non-cancellable operating leases that expire at varying dates through January 2018. Total lease expense under these lease agreements for the years ended March 31, 2013 and 2012 was \$56,322 and \$58,198, respectively.

The following is a schedule by years of future minimum lease payments under these operating leases:

<u>Year Ending</u> <u>March 31,</u>	<u>Total</u>
2014	\$ 43,328
2015	10,245
2016	9,600
2017	9,600
2018	<u>8,645</u>
Total	<u>\$ 81,418</u>

Legal Matters

In the normal course of business, the Museum may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of the Museum as of March 31, 2013 and 2012.

ORANGE COUNTY MUSEUM OF ART
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NOTES TO FINANCIAL STATEMENTS
March 31, 2013 and 2012

NOTE 11 – RELATED PARTY TRANSACTIONS

As of March 31, 2013 and 2012, contributions receivable due from Board Members amounted to \$1,615,000 and \$41,125, respectively. During the years ended March 31, 2013 and 2012, contribution revenues from Board Members amounted to \$1,060,613 and \$687,722, respectively.

As of March 31, 2013 and 2012, the Museum had a loan receivable from an executive in the amount of \$180,000 and \$180,000, respectively. The note bears interest at 5% per annum, interest payments are due annually on April 30, and all outstanding principal and unpaid interest is due on August 13, 2013. The note is collateralized by a third-position deed of trust on a personal residence.

NOTE 12 – SUBSEQUENT EVENTS

Management evaluated all activity through September 3, 2013 (the issue date of the financial statements) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTAL INFORMATION

ORANGE COUNTY MUSEUM OF ART
(A NONPROFIT ORGANIZATION)
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended March 31, 2013
(with Comparative Totals for 2012)

	Program Services							Support Services			2013 Total Expenses	2012 Total Expenses	
	Education & Public Programs	Exhibitions	Marketing	Membership Activities	Museum Operations & Collection Management	Retail Operations	Future Building Project	Total Program Services	General and Administrative	Fundraising			Total Support Services
Salary	\$ 195,650	\$ 135,245	\$ 196,004	\$ 16,412	\$ 908,301	\$ 64,093	\$ 100,000	\$ 1,615,705	\$ 236,969	\$ 338,346	\$ 575,315	\$ 2,191,020	\$ 1,736,086
Payroll taxes	16,737	9,958	18,606	1,340	66,211	5,033	-	117,885	20,052	31,928	51,980	169,865	137,271
Employee benefits	21,083	390	17,963	718	69,185	6,147	-	115,486	11,530	15,025	26,555	142,041	102,469
Bank charges and management fees	-	331	-	-	-	-	-	331	32,741	-	32,741	33,072	25,505
Computer and equipment	6,745	53,954	2,271	-	376	-	-	63,346	30,177	2,909	33,086	96,432	54,115
Contracted services	6,348	99,526	61,103	-	64,367	-	335,924	567,268	27,572	1,531	29,103	596,371	735,736
Depreciation and amortization	-	-	-	-	170,029	-	-	170,029	16,588	20,735	37,323	207,352	200,882
Dues and subscriptions	2,458	120	5,859	189	3,328	90	-	12,044	1,116	6,488	7,604	19,648	21,453
Honoraria	28,901	13,869	-	-	1,251	-	-	44,021	-	-	-	44,021	54,721
Insurance	2,522	17,220	3,054	665	70,293	884	-	94,638	6,979	8,866	15,845	110,483	198,632
Interest expense	-	-	-	-	-	-	-	-	12,520	-	12,520	12,520	11,115
Miscellaneous	96	237	250	8,502	710	-	-	9,795	462	2,080	2,542	12,337	5,748
Shipping, crating and postage	213	559,669	7,684	5,578	7,657	856	494	582,151	1,944	4,887	6,831	588,982	242,677
Printing and reproduction	-	255,603	43,431	2,783	323	-	-	302,140	255	2,682	2,937	305,077	217,031
Professional fees	-	-	-	-	-	-	-	-	31,414	-	31,414	31,414	25,280
Programs and previews	-	335,238	-	-	6,954	-	-	342,192	-	-	-	342,192	219,319
Promotions	5,000	-	50,473	58,289	-	-	-	113,762	803	99,521	100,324	214,086	258,703
Storage	-	8,175	-	-	89,494	-	-	97,669	-	-	-	97,669	93,388
Supplies	16,237	658	3,805	58,637	6,744	1,874	1,250	89,205	10,831	8,102	18,933	108,138	70,415
Repairs and maintenance	-	-	-	-	44,552	-	790	45,342	-	225	225	45,567	44,890
Retail operations cost of sales	-	-	-	-	-	44,305	-	44,305	-	-	-	44,305	61,370
Taxes and licenses	25	-	330	598	34,913	2,355	13,440	51,661	6,535	3,893	10,428	62,089	48,188
Travel and entertainment	15,739	62,567	292	273	44,196	-	825	123,892	7,504	25,237	32,741	156,633	182,631
Utilities and occupancy	-	10	-	-	156,512	-	-	156,522	10,107	4,233	14,340	170,862	148,545
Total functional expenses	\$ 317,754	\$ 1,552,770	\$ 411,125	\$ 153,984	\$ 1,745,396	\$ 125,637	\$ 452,723	\$ 4,759,389	\$ 466,099	\$ 576,688	\$ 1,042,787	\$ 5,802,176	\$ 4,896,170

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