

# **SPEED ART MUSEUM**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010 AND 2009**

*CPAs / ADVISORS*



# SPEED ART MUSEUM

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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Speed Art Museum  
Louisville, Kentucky

We have audited the accompanying statement of financial position for Speed Art Museum (a not-for-profit corporation) as of September 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Speed Art Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of September 30, 2009, were audited by Potter & Company, LLP, who merged with Blue & Co., LLC as of January 1, 2010, and whose report dated December 23, 2009, expressed an unqualified opinion on those statements.

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 misstatements. 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 financial statements referred to above present fairly, in all material respects, the financial position of Speed Art Museum as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Blue & Co., LLC*

January 6, 2011

# SPEED ART MUSEUM

## STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2010 AND 2009

	<b>ASSETS</b>	
	2010	2009
Cash and cash equivalents	\$ 766,998	\$ 1,216,981
Accounts receivable	32,811	70,050
Grants receivable	75,828	42,132
Bequests receivable	99,059	161,415
Pledges receivable, net	18,171,568	8,188,588
Accrued income receivable	364	546
Investments	75,529,562	71,240,638
Inventories	29,990	30,898
Prepaid expenses	174,192	28,179
Property and equipment, net	<u>16,144,953</u>	<u>15,909,632</u>
Total assets	<u>\$ 111,025,325</u>	<u>\$ 96,889,059</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and other accrued liabilities	\$ 328,097	\$ 447,455
Net assets:		
Unrestricted:		
Operating	182,515	416,660
Board designated - unappropriated	42,602,372	41,065,562
Board designated - accessions	17,693,860	17,212,737
Investment in property and equipment	<u>16,144,953</u>	<u>15,909,632</u>
Total unrestricted	76,623,700	74,604,591
Temporarily restricted:		
Operating	239,153	142,270
Accessions	962,914	873,602
Capital development	<u>27,023,413</u>	<u>15,173,093</u>
Total temporarily restricted	28,225,480	16,188,965
Permanently restricted:		
Endowment	<u>5,848,048</u>	<u>5,648,048</u>
Total net assets	<u>110,697,228</u>	<u>96,441,604</u>
Total liabilities and net assets	<u>\$ 111,025,325</u>	<u>\$ 96,889,059</u>

*See accompanying notes to financial statements.*

# SPEED ART MUSEUM

## STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2010 (WITH COMPARATIVE TOTALS AT SEPTEMBER 30, 2009)

	2010				2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>Revenue, gains and support:</b>					
Annual fund and individual donations	\$ 1,135,441	\$ 0	\$ 0	\$ 1,135,441	\$ 925,380
Endowment donations	0	0	0	0	102,254
Program sponsorships	0	268,086	0	268,086	145,752
Exhibition sponsorships	0	5,000	0	5,000	30,180
Exhibition ticket sales	27,419	0	0	27,419	71,547
Corporate memberships	16,750	0	0	16,750	49,750
Donations and deaccessions-artwork	0	322,544	0	322,544	263,856
Donations to Capital Campaign	0	13,490,662	200,000	13,690,662	6,121,825
Government grants	110,197	0	0	110,197	122,806
Shop sales	90,127	0	0	90,127	125,142
Alliance and museum ball	181,290	0	0	181,290	247,492
Programming and events	89,113	0	0	89,113	119,268
Parking garage	373,674	0	0	373,674	343,152
Investment income	898,706	8,348	0	907,054	1,099,254
Net realized and unrealized investment gain	4,847,011	0	0	4,847,011	195,265
Total revenue, gains and support	7,769,728	14,094,640	200,000	22,064,368	9,962,923
Net assets released from restrictions	2,058,125	(2,058,125)	0	0	0
	9,827,853	12,036,515	200,000	22,064,368	9,962,923
<b>Expenses:</b>					
Physical plant and security	2,386,958	0	0	2,386,958	2,458,808
Administration	1,291,004	0	0	1,291,004	1,302,707
Curatorial and conservation	707,038	0	0	707,038	713,138
Education and outreach	455,404	0	0	455,404	438,266
Accessions	1,174,899	0	0	1,174,899	758,654
Development	408,391	0	0	408,391	400,654
External communications	484,304	0	0	484,304	526,648
Exhibitions	197,239	0	0	197,239	932,538
Shop expense	111,512	0	0	111,512	150,552
Alliance and museum ball	131,753	0	0	131,753	220,597
Parking garage	141,226	0	0	141,226	133,795
Capital Campaign expenditures	319,016	0	0	319,016	692,113
Total expenses	7,808,744	0	0	7,808,744	8,728,470
Change in net assets	2,019,109	12,036,515	200,000	14,255,624	1,234,453
<b>Net assets, beginning of year</b>	74,604,591	16,188,965	5,648,048	96,441,604	95,207,151
<b>Net assets, end of year</b>	\$ 76,623,700	\$ 28,225,480	\$ 5,848,048	\$ 110,697,228	\$ 96,441,604

*See accompanying notes to financial statements.*

# SPEED ART MUSEUM

## STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2009

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue, gains and support:</b>				
Annual fund and individual donations	\$ 925,380	\$ 0		\$ 925,380
Endowment donations	0	0	102,254	102,254
Program sponsorships	0	145,752	0	145,752
Exhibition sponsorships	0	30,180	0	30,180
Exhibition ticket sales	71,547	0	0	71,547
Corporate memberships	49,750	0	0	49,750
Donations and deaccessions-artwork	0	263,856	0	263,856
Donations to Capital Campaign	0	6,121,825	0	6,121,825
Government grants	122,806	0	0	122,806
Shop sales	125,142	0	0	125,142
Alliance and museum ball	247,492	0	0	247,492
Programming and events	119,268	0	0	119,268
Parking garage	343,152	0	0	343,152
Investment income	1,065,217	34,037	0	1,099,254
Net realized and unrealized investment gain	<u>195,265</u>	<u>0</u>	<u>0</u>	<u>195,265</u>
<b>Total revenue, gains and support</b>	<b>3,265,019</b>	<b>6,595,650</b>	<b>102,254</b>	<b>9,962,923</b>
Net assets released from restrictions	<u>1,982,131</u>	<u>(1,982,131)</u>	<u>0</u>	<u>0</u>
	5,247,150	4,613,519	102,254	9,962,923
<b>Expenses:</b>				
Physical plant and security	2,458,808	0	0	2,458,808
Administration	1,302,707	0	0	1,302,707
Curatorial and conservation	713,138	0	0	713,138
Education and outreach	438,266	0	0	438,266
Accessions	758,654	0	0	758,654
Development	400,654	0	0	400,654
External communications	526,648	0	0	526,648
Exhibitions	932,538	0	0	932,538
Shop expense	150,552	0	0	150,552
Alliance and museum ball	220,597	0	0	220,597
Parking garage	133,795	0	0	133,795
Capital Campaign expenditures	<u>692,113</u>	<u>0</u>	<u>0</u>	<u>692,113</u>
<b>Total expenses</b>	<b>8,728,470</b>	<b>0</b>	<b>0</b>	<b>8,728,470</b>
Change in net assets	(3,481,320)	4,613,519	102,254	1,234,453
<b>Net assets, beginning of year</b>	<u>78,085,911</u>	<u>11,575,446</u>	<u>5,545,794</u>	<u>95,207,151</u>
<b>Net assets, end of year</b>	<u>\$ 74,604,591</u>	<u>\$ 16,188,965</u>	<u>\$ 5,648,048</u>	<u>\$ 96,441,604</u>

*See accompanying notes to financial statements.*

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

	2010	2009
<b>Operating activities:</b>		
Change in net assets	\$ 14,255,624	\$ 1,234,453
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	1,132,192	1,175,834
Net realized and unrealized investment gain	(4,847,011)	(195,265)
Collection items purchased but not capitalized	1,292,066	630,852
Contributions restricted for permanent investments	(200,000)	(102,254)
Donations to Capital Campaign	(13,490,662)	(6,121,825)
Changes in operating assets and liabilities:		
Accounts, grants and bequests receivable	65,899	(8,172)
Pledges receivable, net	(9,982,980)	(1,896,771)
Accrued income receivable	182	35,271
Inventories	908	24,381
Prepaid expenses	(146,013)	633,359
Accounts payable and other accrued liabilities	(119,358)	(121,511)
Net cash flows from operating activities	(12,039,153)	(4,711,648)
<b>Investing activities:</b>		
Proceeds from sale of investments	53,410,834	10,060,247
Purchase of investments	(52,852,747)	(9,705,148)
Acquisition of property and equipment	(1,367,513)	(94,577)
Collection items purchased but not capitalized	(1,292,066)	(630,852)
Net cash flows from investing activities	(2,101,492)	(370,330)
<b>Financing activities:</b>		
Contributions restricted for permanent investments	200,000	102,254
Contributions for capital expenditure	13,490,662	6,121,825
Net cash flows from financing activities	13,690,662	6,224,079
Net change in cash and cash equivalents	(449,983)	1,142,101
<b>Cash and cash equivalents, beginning of year</b>	1,216,981	74,880
<b>Cash and cash equivalents, end of year</b>	\$ 766,998	\$ 1,216,981

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Organization

The Speed Art Museum (the Museum), a not-for-profit corporation established under the laws of the State of Kentucky, operates with a purpose of collecting, researching, conserving, exhibiting and interpreting art of the highest quality for the enjoyment and enlightenment of the general public. The Museum is supported primarily through contributions and endowments.

#### Method of Accounting

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

#### Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000 per financial institution. Additionally, for purposes of the statement of cash flows, the Museum considers all highly liquid investments purchased with an original maturity of three months or less, which are not restricted by donor arrangement, or held by brokerage firms, to be cash equivalents.

#### Investments

Investments in debt securities and equity securities having readily determinable fair values are stated at fair value based on quoted market prices or dealer quotes. Short-term investments consist of cash and cash equivalents held by brokerage firms. Alternative equity securities are valued at estimated fair value at their net asset value per share as determined by the fund managers. Fair value of investments may be subject to significant fluctuations due to market changes.

The Museum believes that the carrying amount of its alternative and private equity securities is a reasonable estimate of fair value as of September 30, 2010 and 2009. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

#### Inventories

Inventories are stated at cost using the first-in, first-out (FIFO) method. Inventories are related to the Museum Shop and consist of museum collection related items purchased for resale.

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### Property and Equipment

Property and equipment are stated at cost or, if donated to the Museum, at fair market value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method.

### Contributions

Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist.

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 gifts that are received for which their restricted purpose is met during the same year are initially recorded as temporarily restricted net assets and then reported as net assets released from restrictions and reclassified as unrestricted net assets. Investments in perpetuity are permanently restricted by the donor as a principal. Investment earnings available for operations are recorded in unrestricted net assets.

### Donated Services

The value of donated services is not reflected in the accompanying financial statements since there are no objective bases available by which to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time to the Museum.

### Marketing and Public Relations

The Museum expenses all marketing and public relations expenses when incurred.

### Use of Estimates in the Preparation of Financial Statements

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### Reclassifications

Certain reclassifications have been made to the 2009 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

## 2. INCOME TAXES

The Museum is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the Museum has been determined not to be a private foundation under Section 509(a) of the Internal Revenue Code.

Effective October 1, 2009, the Museum implemented the accounting guidance for uncertainty in income taxes using the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will not be sustained upon examination by the tax authorities. The Museum's open audit periods are 2006 – 2008.

## 3. PLEDGES RECEIVABLE

At September 30, 2010 and 2009, the Museum had pledges receivable recorded on its statement of financial position of \$18,171,568 and \$8,188,588, respectively, net of present value discount of \$308,714 and \$230,206 respectively. The Museum has pledges receivable supporting the accessions, building restoration, programs and exhibits over the next seven years. Receipts are expected as follows:

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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	<u>2010</u>	<u>2009</u>
Amounts receivable in:		
Less than one year	\$ 2,258,439	\$ 4,179,236
One to five years	<u>16,221,843</u>	<u>4,239,558</u>
Total	18,480,282	8,418,794
Less present value discount (1.94%)	<u>308,714</u>	<u>230,206</u>
Net pledges receivable	<u>\$ 18,171,568</u>	<u>\$ 8,188,588</u>
Year Ended September 30:		
2011	\$ 2,258,439	
2012	2,321,883	
2013	2,365,460	
2014	1,119,500	
2015	10,415,000	
Less present value discount (1.94%)	<u>(308,714)</u>	
Net pledges receivable	<u>\$ 18,171,568</u>	

The Museum receives pledges from businesses and individuals primarily located in Jefferson and adjoining counties in Kentucky and southern Indiana. The Museum considers all pledges receivable to be collectible.

#### 4. TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were committed primarily for artwork, donations to the capital campaign, and grants and sponsorships of programs and special exhibitions. Net assets of \$2,258,125 and \$1,982,131 for the years ended September 30, 2010 and 2009, respectively, have been released from temporarily restricted net assets in satisfaction of the purposes specified by donors.

Permanently restricted net assets of \$5,848,048 and \$5,648,048 at September 30, 2010 and 2009, respectively, are invested in perpetuity, the income from which is expendable to support activities of the Museum.

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### 5. INVESTMENTS

Investments are carried at fair value. The Museum's investments at September 30, 2010 and 2009, consisted of the following:

	2010 Fair Value	2009 Fair Value
	<u>                    </u>	<u>                    </u>
Short-term investments	\$ 11,365,930	\$ 8,681,161
Equity common funds	47,695,584	47,088,834
Limited partnership	159,358	25,137
Fixed income common funds	11,427,608	11,794,222
Multi-strategy common funds	<u>4,881,082</u>	<u>3,651,284</u>
	<u>\$ 75,529,562</u>	<u>\$ 71,240,638</u>

### 6. FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority.
- Level 2 inputs consist of observable inputs other than quoted prices for identical assets.
- Level 3 are unobservable inputs for the asset or liability.

The Museum's investments are reported at fair value in the accompanying statements of financial position.

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>September 30, 2010</u>				
Short-term investments	\$ 11,365,930	\$ 9,379,400	\$ 1,986,530	\$ 0
Equity common funds	47,695,584	0	47,695,584	0
Limited partnership	159,358	0	159,358	0
Fixed income common funds	11,427,608	0	11,427,608	0
Multi-strategy common funds	4,881,082	0	4,881,082	0
Total	<u>\$ 75,529,562</u>	<u>\$ 9,379,400</u>	<u>\$ 66,150,162</u>	<u>\$ 0</u>

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>September 30, 2009</u>				
Short-term investments	\$ 8,681,161	\$ 7,409,487	\$ 1,271,674	\$ 0
Equity common funds	47,088,834	0	47,088,834	0
Limited partnership	25,137	0	25,137	0
Fixed income common funds	11,794,222	0	11,794,222	0
Multi-strategy common funds	3,651,284	0	3,651,284	0
Total	<u>\$ 71,240,638</u>	<u>\$ 7,409,487</u>	<u>\$ 63,831,151</u>	<u>\$ 0</u>

## 7. ENDOWMENT FUNDS

The Museum's endowment consists of both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Fund Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSF FAS 117-1) provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) FSF FAS 117-1 also requires additional disclosures

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds). The Museum has adopted the net asset classification provisions of FSF FAS 117-1 for the year ending September 30, 2010.

The State of Kentucky enacted UPMIFA effective July 15, 2010, the provisions of which apply to endowment funds existing on or established after that date. The Museum has reviewed all of its endowment funds, and based on the Museum's interpretation of UPMIFA, no amounts needed to be reclassified from unrestricted net assets to temporarily restricted net assets as of October 1, 2009.

The Board of Directors of the Museum has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary. 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 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. In accordance with the UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Museum 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 Museum
7. The investment policies of the Museum

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Endowment net asset composition by type of fund as of September 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments Board designated	\$ 0 <u>60,307,517</u>	\$ 0 <u>0</u>	\$ 5,848,048 <u>0</u>	\$ 5,848,048 <u>60,307,517</u>
Total fund	<u>\$ 60,307,517</u>	<u>\$ 0</u>	<u>\$ 5,848,048</u>	<u>\$ 66,155,565</u>

Changes in endowment net assets for the year ended September 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 58,196,939	\$ 0	\$ 5,648,048	\$ 63,844,987
Investment return:				
Investment income	893,134	0	0	893,134
Net losses (realized and unrealized)	<u>4,847,011</u>	<u>0</u>	<u>0</u>	<u>4,847,011</u>
Total investment return	5,740,145	0	0	5,740,145
Contributions	0	0	200,000	200,000
Appropriation of assets for expenditure	<u>(3,629,567)</u>	<u>0</u>	<u>0</u>	<u>(3,629,567)</u>
	<u>2,110,578</u>	<u>0</u>	<u>200,000</u>	<u>2,310,578</u>
Endowment net assets, end of year	<u>\$ 60,307,517</u>	<u>\$ 0</u>	<u>\$ 5,848,048</u>	<u>\$ 66,155,565</u>

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Endowment net asset composition by type of fund as of September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ 0	\$ 0	\$ 5,648,048	\$ 5,648,048
Board designated	58,196,939	0	0	58,196,939
 Total fund	 \$ 58,196,939	 \$ 0	 \$ 5,648,048	 \$ 63,844,987

Changes in endowment net assets for the year ended September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 60,408,251	\$ 0	\$ 5,545,794	\$ 65,954,045
Investment return:				
Investment income	1,051,887	0	0	1,051,887
Net losses (realized and unrealized)	195,265	0	0	195,265
Total investment return	1,247,152	0	0	1,247,152
Contributions	0	0	102,254	102,254
Appropriation of assets for expenditure	(3,458,464)	0	0	(3,458,464)
	(2,211,312)	0	102,254	(2,109,058)
Endowment net assets, end of year	\$ 58,196,939	\$ 0	\$ 5,648,048	\$ 63,844,987

*Funds with deficiencies:* From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$2,302,033 and \$2,487,846 as of September 30, 2010 and 2009, respectively. These deficiencies resulted from declining markets.

*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 as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate, aggregate costs of portfolio management, the long-term inflation rate and any growth factor that the

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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Board may, from time to time, determine appropriate while assuming a moderate level of investment risk. The Museum expects its endowment funds, over time, to provide an average rate of return that exceeds the distribution rate plus inflation as measured by the CPI.

*Strategies employed for achieving objectives:* 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 investments to achieve its long-term objectives within prudent risk constraints.

*Spending policies and how the investment objectives relate to spending policy:* The Museum has a policy of appropriating for distribution each year 5.50 percent of the operating endowment and 5.00 percent of the accession endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. The Museum's goal is to reduce the operating endowment's spending policy to 5.00 percent. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long-term, the Museum expects the current spending policy to allow its endowment to grow at an average of 6 percent annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

### 8. PROPERTY AND EQUIPMENT

The Museum's property and equipment, and the related accumulated depreciation, at September 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Land improvements	\$ 1,400	\$ 1,400
Grounds, roadways and parking facilities	8,474,272	8,471,397
Buildings	22,653,698	22,653,698
Furniture, fixtures, and equipment	2,563,068	2,523,870
Construction in progress	1,325,440	0
	<u>35,017,878</u>	<u>33,650,365</u>
Less accumulated depreciation	<u>18,872,925</u>	<u>17,740,733</u>
	<u>\$ 16,144,953</u>	<u>\$ 15,909,632</u>

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Depreciation expense was \$1,132,192 and \$1,175,834 in 2010 and 2009, respectively. The Museum has an accounting policy requiring capitalization of all property and equipment purchases that are at least \$1,000.

The Museum's building and parking garage are erected on land furnished by the University of Louisville. If the University abandons the Museum building site, it must erect a comparable facility on its new grounds, or retain the Museum as if the University had not moved, or convey the land on which the Museum is situated to the Museum so long as it is used for Museum purposes.

### 9. ART COLLECTION

In conformity with the practice followed by most museums, art objects are not included in the accompanying statements of financial position. Accordingly, the fair values of the objects acquired by gift are not included in the statement of activities. The costs of objects purchased are included as expense in the statement of activities. For the years ended September 30, 2010 and 2009, the Museum received gifts of artwork in the amount of \$340,650 and \$336,860, and purchased artwork for \$1,292,066 and \$630,352, respectively. Deaccessions were not significant for the years ended September 30, 2010 and 2009, respectively.

The Speed Art Museum has a significant collection of art including approximately 13,000 pieces. The collection spans 6,000 years, and ranges from ancient Egyptian to contemporary art. The Museum has distinguished collections of 17<sup>th</sup> century Dutch and Flemish paintings; 18<sup>th</sup> century French art; Renaissance and Baroque tapestries; and significant holdings of contemporary paintings and sculptures. Works by Kentucky artists, including furniture, paintings, and decorative arts are represented in the Museum's collection. African and Native American works are also represented.

### 10. RETIREMENT BENEFITS

The Museum has established a non-contributory defined contribution money purchase pension plan for substantially all employees. The plan requires contributions to be made based on a percentage of the employees' covered salaries. The contributions are used to purchase annuities. Total pension expense recorded for this retirement plan amounted to approximately \$127,824 and \$107,000 for the years ended September 30, 2010 and 2009, respectively.

The Museum has also established a contributory tax-deferred annuity plan (403)(b), which covers substantially all employees. The Museum makes no contributions under this plan.

# SPEED ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### 11. FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by functional classification for fiscal years 2010 and 2009 are shown below:

	<u>2010</u>	<u>2009</u>
Total operating expense for the Statement of Activities	\$ 7,808,744	\$ 8,728,470
Investment fees included in net investment income	<u>157,497</u>	<u>149,148</u>
	<u>\$ 7,966,241</u>	<u>\$ 8,877,618</u>
Program and auxiliary services:		
Curatorial, conservation, and exhibition activities	\$ 4,466,134	\$ 4,863,138
Education and outreach	455,404	438,266
Auxiliary services	384,491	504,944
Support activities:		
Development	892,695	927,302
Fundraising	319,016	692,113
Administrative	<u>1,448,501</u>	<u>1,451,855</u>
Total operating expenses	<u>\$ 7,966,241</u>	<u>\$ 8,877,618</u>

### 12. COMMITMENTS AND CONTINGENCIES

The Museum receives grants that require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors. Although that is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms, it has accommodated the objectives of the organization to the provisions of the grants. Such grants are subject to financial and compliance audits by the grantor or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The Museum has an employment agreement with its Director which extends through October 1, 2013.

The Museum has scheduled future exhibits through fiscal year 2011. Future commitments on these exhibits are approximately \$37,500.

### 13. DATE OF MANAGEMENT'S REVIEW

Management has evaluated the subsequent events through January 6, 2011, which is the date the financial statements were available to be issued.

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