

NEW ORLEANS MUSEUM OF ART

Financial Statements and Schedules

December 31, 2013 and 2012

With Independent Auditors' Report Thereon



A Professional Accounting Corporation

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NEW ORLEANS MUSEUM OF ART

Years Ended December 31, 2013 and 2012

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Independent Auditors' Report

The Board of Trustees
New Orleans Museum of Art:

Report on the Financial Statements

We have audited the accompanying financial statements of the New Orleans Museum of Art (a nonprofit organization) (the Museum), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 New Orleans Museum of Art as of December 31, 2013 and 2012, 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.

Other Matters

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on pages 21 and 22 is presented for purposes of additional analysis and is not a required part of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2014 on our consideration of the Museum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Postlethwaite & Nettville

Metairie, Louisiana
June 23, 2014

NEW ORLEANS MUSEUM OF ART

Statements of Financial Position

December 31, 2013 and 2012

		Assets	
		<u>2013</u>	<u>2012</u>
Current assets:			
Cash	\$	449,406	\$ 1,425,486
Investments, short-term (note 2)		1,833,316	172,202
Receivables:			
Promises to give (note 4)		90,000	385,000
Grants and other receivables		337,565	265,981
Inventories		172,490	149,022
Prepaid assets		187,466	31,922
Total current assets		<u>3,070,243</u>	<u>2,429,613</u>
Promises to give, long-term (note 4)		270,000	340,000
Investments, long-term and real property (note 2)		46,155,396	38,747,540
Building, improvements and equipment, net (note 3)		<u>11,834,660</u>	<u>12,046,390</u>
Total assets	\$	<u><u>61,330,299</u></u>	\$ <u><u>53,563,543</u></u>
		Liabilities and Net Assets	
Current liabilities:			
Accounts payable, accruals and other liabilities	\$	245,922	\$ 238,992
Salaries, taxes, withholdings, and pension payable		291,491	269,139
Accumulated unused sick and annual leave		94,007	119,745
Total current liabilities		<u>631,420</u>	<u>627,876</u>
Total liabilities		<u>631,420</u>	<u>627,876</u>
Net assets:			
Unrestricted:			
Unrestricted, operating		1,872,699	1,666,699
Board designated, investment in building		11,834,660	12,046,390
Board designated, functioning as operating endowments		11,006,103	7,670,750
Total unrestricted net assets		<u>24,713,462</u>	<u>21,383,839</u>
Temporarily restricted		10,848,084	7,425,155
Permanently restricted		25,137,333	24,126,673
Total net assets		<u>60,698,879</u>	<u>52,935,667</u>
Total liabilities and net assets	\$	<u><u>61,330,299</u></u>	\$ <u><u>53,563,543</u></u>

See accompanying notes to financial statements.

NEW ORLEANS MUSEUM OF ART

Statements of Activities

Years ended December 31, 2013 and 2012

	2013			2012				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue:								
Support:								
Individual contributions	\$ 138,231	3,823,825	250,000	4,212,056	\$ 93,576	310,839	201,000	605,415
City, State, and Federal grants	272,862	18,773	-	291,635	755,939	20,000	-	775,939
Sponsorships	31,479	15,000	-	46,479	18,667	274,725	-	293,392
Corporate support	85,266	559,400	-	644,666	115,295	178,000	50,000	343,295
Donation Boxes	10,086	-	-	10,086	13,116	-	-	13,116
Affiliate memberships	678,628	-	-	678,628	791,190	-	-	791,190
Odyssey Ball (net of direct costs of \$139,965 and \$139,741, respectively)	240,939	-	-	240,939	348,385	-	-	348,385
Special benefits (net of direct costs of \$222,445 and \$207,174, respectively)	185,432	-	-	185,432	272,581	-	-	272,581
Legacies and bequests	116,693	-	510,660	627,353	30,304	-	40,391	70,695
Foundations	846,974	790,200	250,000	1,887,174	367,373	176,730	550,000	1,094,103
Total support	2,606,590	5,207,198	1,010,660	8,824,448	2,806,426	960,294	841,391	4,608,111
Revenue:								
General membership dues	392,202	-	-	392,202	380,873	-	-	380,873
Business and university memberships	45,500	-	-	45,500	66,800	-	-	66,800
Admission charges	606,999	-	-	606,999	366,752	-	-	366,752
Arts Quarterly and other publications	1,672	-	-	1,672	2,972	-	-	2,972
Education programs	27,272	-	-	27,272	28,214	-	-	28,214
Exhibition programs	35,624	-	-	35,624	93,498	-	-	93,498
Special evenings	267,604	-	-	267,604	349,565	-	-	349,565
Members' events	27,772	-	-	27,772	38,207	-	-	38,207
Interest and dividends	133,830	114,228	-	248,058	220,612	181,623	-	402,235
Net appreciation in investments	4,478,679	3,561,090	-	8,039,769	2,465,368	1,955,657	-	4,421,025
Royalties	1,636	404	-	2,040	773	22,328	-	23,101
Miscellaneous	3,837	30,555	-	34,412	946	-	-	946
Deaccessions	-	-	-	-	-	600	-	600
Museum shop	504,167	-	-	504,167	314,716	-	-	314,716
Total revenue	6,526,814	3,706,277	-	10,233,091	4,329,296	2,160,208	-	6,489,504
Total support and revenue before net assets released from restrictions/transfers	9,133,404	8,913,475	1,010,660	19,057,539	7,135,722	3,120,502	841,391	11,097,615
Net assets released from restrictions/transfers (note 6):								
Net assets released from restrictions	4,343,326	(4,343,326)	-	-	678,684	(678,684)	-	-
Transfers	1,147,220	(1,147,220)	-	-	778,219	(778,219)	-	-
Total net assets released/transfers	5,490,546	(5,490,546)	-	-	1,456,903	(1,456,903)	-	-
Total support and revenue	14,623,950	3,422,929	1,010,660	19,057,539	8,592,625	1,663,599	841,391	11,097,615

(Continued)

NEW ORLEANS MUSEUM OF ART

Statements of Activities

Years ended December 31, 2013 and 2012

	2013			2012				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Expenses:								
Administrative/Computer operations	\$ 1,306,568	-	-	1,306,568	\$ 1,373,769	-	-	1,373,769
Building/Security	2,072,000	-	-	2,072,000	2,041,676	-	-	2,041,676
Museum shop	455,769	-	-	455,769	297,390	-	-	297,390
Art division:								
Collections	1,181,801	-	-	1,181,801	1,112,093	-	-	1,112,093
Art accessions not capitalized (note 5)	3,563,122	-	-	3,563,122	247,030	-	-	247,030
Exhibition programs	1,030,617	-	-	1,030,617	665,346	-	-	665,346
Arts Quarterly	129,929	-	-	129,929	79,075	-	-	79,075
Education programs	388,286	-	-	388,286	302,435	-	-	302,435
Public relations and fund raising	892,606	-	-	892,606	645,316	-	-	645,316
Member activities and other restricted expenses	273,629	-	-	273,629	523,721	-	-	523,721
Total expenses	11,294,327	-	-	11,294,327	7,287,851	-	-	7,287,851
Change in net assets	3,329,623	3,422,929	1,010,660	7,763,212	1,304,774	1,663,599	841,391	3,809,764
Net assets at beginning of year	21,383,839	7,425,155	24,126,673	52,935,667	20,079,065	5,761,556	23,285,282	49,125,903
Net assets at end of year	\$ 24,713,462	10,848,084	25,137,333	60,698,879	\$ 21,383,839	7,425,155	24,126,673	52,935,667

See accompanying notes to financial statements.

NEW ORLEANS MUSEUM OF ART

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from government entities	\$ 576,389	\$ 573,328
Cash received from contributors	7,530,883	3,045,781
Cash received from sales of art	-	600
Cash received from memberships and member activities	1,441,189	1,350,928
Cash received from auxiliary operations	504,167	314,716
Interest and dividends received	248,058	402,235
Cash paid to employees and suppliers	(7,261,982)	(7,038,587)
Cash paid for art acquisitions	(3,563,122)	(247,030)
Net cash used in operating activities	(524,418)	(1,598,029)
Cash flows from investing activities:		
Purchase of investments	(9,144,118)	(1,379,510)
Maturities/sales of investments	8,114,917	3,324,780
Purchases of building improvements and equipment	(433,120)	(303,959)
Net cash provided by (used in) investing activities	(1,462,321)	1,641,311
Cash flows from financing activities:		
Proceeds from contributions, permanently restricted	1,010,660	841,391
Net cash provided by financing activities	1,010,660	841,391
Net increase (decrease) in cash and cash equivalents	(976,079)	884,673
Cash and cash equivalents at beginning of year	1,425,486	540,813
Cash and cash equivalents at end of year	\$ 449,407	\$ 1,425,486
Reconciliation of changes in net assets to net cash from operating activities:		
Changes in net assets	\$ 7,763,212	\$ 3,809,764
Adjustments for long-term income and non-cash expenses:		
Permanently restricted contributions	(1,010,660)	(841,391)
Appreciation of investments	(8,039,769)	(4,421,025)
Depreciation of building improvements and equipment	644,850	560,427
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Increase (decrease) in current assets and long-term promises to give	114,405	(210,058)
Decrease in current liabilities	3,544	(495,746)
Net cash used in operating activities	\$ (524,418)	\$ (1,598,029)

See accompanying notes to financial statements.

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies

(a) *History and Organization*

The New Orleans Museum of Art (the Museum) opened in 1911 and has become an iconic presence synonymous with the City of New Orleans. The Museum is a cultural convener and destination in the South and is recognized nationally for an excellent collection, innovative education initiatives, a strong commitment to diverse audiences and an internationally renowned sculpture garden. The Museum is organized as a private, nonprofit corporation, chartered in the State of Louisiana and granted 501(c)(3) status by the Internal Revenue Service. It is governed by a 42-member Board of Trustees, serving staggered three-year terms. The Museum is affiliated with the City of New Orleans as an unattached board. The building occupied by the Museum is owned by the City of New Orleans and the Museum has had full use of the facility at no charge since 1911. All works of art are owned by the fore mentioned nonprofit corporation, the New Orleans Museum of Art. The art collection is maintained for public exhibition, education and research in furtherance of public service rather than for financial gain.

(b) *Financial Statement Presentation*

The financial statements of the Museum are presented on the accrual basis of accounting. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Museum and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Museum and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by actions of the Museum pursuant to those stipulations.

(c) *Promises to Give*

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Museum provides for an allowance for uncollectible unconditional promises receivable when necessary.

(d) *Building Improvements and Equipment*

Building improvements and equipment are recorded at cost if purchased or fair value if donated. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Maintenance and repairs are expensed as incurred and major improvements are capitalized. When items of equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of income. Impairment of long-lived assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value.

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies (continued)

(d) Building Improvements and Equipment (continued)

In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using appraisals. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. There were no impairments of long-lived assets recorded by management during the years ended December 31, 2013 and 2012.

(e) Vacation and Sick Pay

Museum's vacation pay (annual leave) and sick pay (sick leave) are accrued when earned. Effective December 31, 2013, the Museum changed its sick leave policy. The Museum's policy permits employees a limited amount of earned but unused vacation which will be paid to employees upon separation from the Museum. The amount of annual leave shall not exceed twenty-five (25) days for employees. Five (5) days of sick leave is accrued at the beginning of the year and employees may accumulate up to thirty (30) days. There is no payout of sick leave available to employees upon separation from the Museum. Prior to December 31, 2013, certain amounts of unused sick leave could be carried over for use in a subsequent period and was paid upon termination.

(f) Investments

Investments, consisting of common stocks, non-traditional investments, corporate bonds, and U.S. government and agency issues, are recorded at fair value. Unrealized gains and losses on investments in equity securities with readily determinable fair values and all investments in debt securities are recorded in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Dividend, interest, and other investment income are recorded as increases in unrestricted net assets unless the use is restricted by the donor. Donated investments are recorded at fair market value at the date of receipt. Investments consisting of real property contributed to the Museum are recorded at fair value at the date of the donation.

Realized gains and losses, and declines in value judged to be other than temporary, are included in net appreciation (depreciation) of investments. Realized gains and losses on the sales of securities are determined using the specific-identification method. A decline in the fair value of investments below cost that is deemed to be other than temporary results in a charge to change in net assets and the establishment of a new cost basis for the investment.

(g) Inventory

The Museum's shop inventory is valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

(h) Income Taxes

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950.

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies (continued)

The Museum applies a “more-likely-than-not” recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. As a result of implementing this approach, the Museum has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities.

Therefore, the implementation of this standard has not had a material effect on the Museum. The Museum’s tax returns for the years ended December 31, 2012, 2011, and 2010 remain open and subject to examination by taxing authorities. The Museum’s tax return for the year ended December 31, 2013 has not yet been filed.

(i) Restricted Net Assets

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 are reported in the statements of activities as net assets released from restrictions.

Gifts of long-lived operating assets such as land, buildings or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

During the year ended December 31, 2013, certain amounts previously classified in 2012 as unrestricted-board designated as an endowment were reclassified as unrestricted – operating.

(j) Use of Estimates

Management of the Museum has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, the valuation of fixed assets and investments. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(k) Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents include bank deposits and money market accounts.

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(2) Investments

The market value of investments is as follows at December 31:

	<u>2013</u>	<u>2012</u>
Cash equivalents	\$ 2,230,857	\$ 896,313
Mutual funds	45,046,656	37,136,870
Corporate stocks	207,193	173,212
Real property	436,260	436,260
Limited partnership hedge funds	18,937	55,113
Other	238,809	221,974
	<u>\$ 47,988,712</u>	<u>\$ 38,919,742</u>

Reconciliation to the statements of financial position is as follows:

	<u>2013</u>	<u>2012</u>
Short-term investments	\$ 1,833,316	\$ 172,202
Long-term investments	45,965,396	38,747,540
	<u>\$ 47,988,712</u>	<u>\$ 38,919,742</u>

Investments are held for the following purposes:

	<u>2013</u>	<u>2012</u>
Unrestricted, substantially board designated	\$ 12,802,190	\$ 8,648,334
Temporarily restricted:		
Operating:		
Library	-	19,040
Curatorship, functioning as endowments	846,589	689,996
Directorship, functioning as endowments	480,129	274,092
Education program	116,837	15,347
Gallery maintenance	818,962	230,356
General operating program	484,141	382,341
	<u>2,746,658</u>	<u>1,611,172</u>
Art accessions	7,662,531	5,233,563
	<u>10,409,189</u>	<u>6,844,735</u>
Permanently restricted:		
Curatorship	3,750,000	3,000,000
Directorship	1,000,000	1,000,000
Education program	641,695	391,695
Gallery maintenance	208,782	118,782
General operating program	14,083,869	13,823,209
Scholar program	357,143	357,143
	<u>20,041,489</u>	<u>18,690,829</u>
Art accessions	4,735,844	4,735,844

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

	<u>24,777,333</u>	<u>23,426,673</u>
\$	<u>47,988,712</u>	<u>\$ 38,919,742</u>

(2) **Investments (continued)**

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Dividends and interest	\$ 248,058	\$ 402,235
Net realized and unrealized gains, net of losses:		
Realized	992,463	120,441
Unrealized	<u>7,047,306</u>	<u>4,300,584</u>
	<u>8,039,769</u>	<u>4,421,025</u>
Total return on investments	\$ <u>8,287,827</u>	\$ <u>4,823,260</u>

Dividends, interest, and unrealized and realized gains (losses) on permanently restricted investments are reflected in the related unrestricted or temporarily restricted net assets. If the permanent and the temporarily restricted funds do not have sufficient net assets to fund investment losses, appropriate transfers from the unrestricted net assets are made to the funds.

(3) **Building, Improvements and Equipment**

Building, improvements and equipment consist of the following at December 31:

2013				
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Estimated useful lives</u>
Building and improvements	\$ 17,381,493	(8,752,832)	\$ 8,628,661	39-40 years
Equipment	491,106	(186,319)	304,787	5-7 years
Vehicles	45,748	(9,150)	36,598	5 years
Land improvements	450,076	(135,023)	315,053	40 years
Sculpture Garden	3,385,833	(827,273)	2,558,560	40 years
	<u>\$ 21,754,256</u>	<u>(9,910,597)</u>	<u>\$ 11,843,660</u>	
2012				
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Estimated useful lives</u>
Building and improvements	\$ 17,125,416	(8,320,877)	\$ 8,804,539	39-40 years
Equipment	966,752	(576,104)	390,648	5-7 years
Vehicles	18,229	(18,229)	-	5 years
Land improvements	450,076	(123,771)	326,305	40 years
Sculpture Garden	3,257,932	(733,034)	2,524,898	40 years
	<u>\$ 21,818,405</u>	<u>(9,772,015)</u>	<u>\$ 12,046,390</u>	

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

Depreciation expense in 2013 and 2012 was \$644,850 and \$560,427, respectively.

(4) Promises to Give

Promises to give are dedicated by the donors for the Museum's Endowments, Sculpture Garden, or other operating purposes and represent a promise by the donors to pay after the balance sheet date.

Scheduled payments were \$360,000 at December 31, 2013 and are collectible in installments of \$90,000 in each fiscal year from 2014 through 2017. Scheduled payments were \$725,000 at December 31, 2012 and are collectible in installments of \$385,000 in fiscal year 2013, \$100,000 in each fiscal year from 2013 through 2016, and \$40,000 in fiscal year 2017.

(5) Art Collection

In conformity with the practice followed by many museums, art purchased and donated is not capitalized. During 2013 and 2012, the cost of collection items purchased by the Museum as a decrease in the appropriate class of net assets was \$3,563,122 and \$247,030, respectively. When not on display in the permanent collection galleries, the objects are maintained in climate controlled storage. The Museum maintains policies and procedures addressing the maintenance and conservation of the collection, as well as other aspects of its management, including accession/deaccession policies.

The Museum employs a professional curatorial staff whose function is to care for its collections; carry out research on the objects in the collection; organize special exhibitions on particular subjects or themes; write scholarly interpretative articles, catalogues and books on art subjects; recommend and oversee needed restoration and conservation treatment on objects in the collection; cultivate and advise private art collectors and encourage donations; seek out and recommend objects for acquisition or deaccession by the Museum; train volunteer docents to give guided tours of the Museum; devise and implement educational programs such as lectures, symposiums, films, concerts, family festivals on specific themes, studio art classes, and other outreach methods; family and teacher workshops for designated public schools.

(6) Net Assets Released

Temporarily restricted net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during December 31 and transfers are as follows:

	<u>2013</u>	<u>2012</u>
Purpose accomplished:		
Administrative and other activities	\$ 1,147,220	\$ 778,219
Art accessions	3,563,122	247,030
Restricted activities and programs	<u>780,204</u>	<u>431,654</u>
	<u>\$ 5,490,546</u>	<u>\$ 1,456,903</u>

(7) Net Assets Composition

Board-designated, functioning as endowments, unrestricted net assets are designated to support operations and totaled \$11,006,103 and \$7,670,750 as of December 31, 2013 and 2012, respectively.

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(7) **Net Assets Composition (continued)**

Temporarily restricted net assets are donor-restricted for the following purposes:

	<u>2013</u>	<u>2012</u>
Capital	\$ 5,000	\$ 127,901
Art accessions	7,659,806	5,254,441
Directorship	479,690	274,092
Curatorship	845,633	689,996
Operation, including scholar and general	727,698	566,060
Gallery maintenance and exhibits	1,013,568	476,278
Library	-	21,040
Education	116,689	15,347
	<u>\$ 10,848,084</u>	<u>\$ 7,425,155</u>

Permanently restricted net assets, investments in perpetuity, the income from which can be used in accordance with donor restrictions, are as follows:

	<u>2013</u>	<u>2012</u>
Operations	\$ 14,283,870	\$ 14,273,209
Art accessions	4,735,844	4,735,844
Curatorship	3,750,000	3,000,000
Directorship	1,000,000	1,000,000
Scholar program	357,142	357,143
Gallery maintenance	368,782	118,782
Education	641,695	641,695
	<u>\$ 25,137,333</u>	<u>\$ 24,126,673</u>

(8) **Pension Plan**

The Museum sponsors a defined contribution 401(k) Profit Sharing Plan for the benefit of its employees. Employees, who are at least age 21, may contribute to the plan after 6 months of service and at least 500 hours. In order to receive matching and employer contributions, employees, who are at least age 21, must work 12 months and 1000 hours. Employees covered under the CNO Service Retirement Plan are not eligible. The Museum makes a 5% contribution to eligible employees and a matching contribution up to 3% of eligible participating employees' wages annually, amounting to \$83,373 and \$85,149 in profit sharing contributions and \$33,678 and \$34,873 in employer match contributions for the years ended December 31, 2013 and 2012, respectively.

Civil service employees of the Museum are eligible for membership in the City of New Orleans Employees' Retirement System. The report on the City of New Orleans Employee's Retirement System can be obtained from the City of New Orleans, Perdido Street, New Orleans, Louisiana. The actuarially computed value of vested benefits of the Museum's employees in the City's pension plan is not available. However, pension payments for these employees are the responsibility of the Museum and amounted to \$31,319 and \$37,221 for the years ended December 31, 2013 and 2012, respectively.

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Notes to Financial Statements

December 31, 2013 and 2012

(9) Expenses

Expenses by natural classification and function have been incurred for the following for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Salaries, wages and benefits	\$ 4,031,018	\$ 3,747,754
Office and occupancy	2,596,204	2,352,928
Supplies and materials	169,949	221,745
Cost of goods sold	289,184	157,967
Depreciation	644,850	560,427
Art accessions	<u>3,563,122</u>	<u>247,030</u>
	<u>\$ 11,294,327</u>	<u>\$ 7,287,851</u>

(10) Commitments

The Museum participated in a number of state and federally-assisted grant programs in fiscal year 2013. The programs are subject to compliance audits. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. The Museum believes that the amount of disallowances, if any, which may arise from future audits, will not be material to the financial statements.

The Museum has also entered into an employment agreement with a member of executive management. Per the terms of said employment agreement, the Museum may incur compensation liabilities if the employee is terminated without good cause during the term of the agreement.

(11) Fair Value Measurements

Fair value measurement standards established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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Notes to Financial Statements

December 31, 2013 and 2012

(11) Fair Value Measurements (continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

U.S. government securities, corporate bonds, mutual funds, corporate stocks: Valued at fair value by using quoted prices for identical securities.

Limited partnership and mutual fund type hedge funds: Valued at fair value by using discounted cash flow techniques.

Real property: Valued at historical cost, which approximates fair value by valuation techniques regarding original purchase price.

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 a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of December 31, 2013.

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 2,230,857	\$ -	\$ -	\$ 2,230,857
Mutual funds				
Segregated portfolio	-	-	92,266	92,266
Pooled equity fund	34,602,770	-	-	34,602,770
Total return fund	5,318,064	-	-	5,318,064
Absolute return pool fund	-	-	3,087,743	3,087,743
Hedged equity fund	-	-	1,755,813	1,755,813
Corporate stocks	207,193	-	-	207,193
Limited partnership hedge funds	-	-	18,937	18,937
Real property	-	-	436,260	436,260
Other	-	238,809	-	238,809
Total assets at fair value	\$ 42,358,884	\$ 238,809	\$ 5,391,019	\$ 47,988,712

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Notes to Financial Statements

December 31, 2013 and 2012

(11) Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Museum's assets at fair value as of December 31, 2012

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 896,313	\$ -	\$ -	\$ 896,313
Mutual funds				
Segregated portfolio	-	-	136,004	136,004
Pooled equity fund	25,554,836	-	-	25,554,836
Total return fund	7,228,988	-	-	7,228,988
Absolute return pool fund	-	-	2,654,788	2,654,788
Hedged equity fund	-	-	1,562,254	1,562,254
Corporate stocks	173,212	-	-	173,212
Limited partnership hedge funds	-	-	55,113	55,113
Real property	-	-	436,260	436,260
Other	-	221,974	-	221,974
Total assets at fair value	<u>\$ 33,853,349</u>	<u>\$ 221,974</u>	<u>\$ 4,844,419</u>	<u>\$ 38,919,742</u>

As required by the standard, the following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3). Unrealized gains and/or losses are shown in the Statements of Activities as "net appreciation (depreciation) in investments".

	Portfolio	Pool Fund	Equity Fund	Total
Balance, January 1, 2012	\$ 208,270	\$ 2,391,278	\$ 1,441,845	4,041,393
Unrealized gains/losses relating to instruments still held at the reporting date, (net)	20,700	263,510	120,409	404,619
Purchase, sales, issuances and settlements, (net)	(32,966)	-	-	(32,966)
Transfers in and/or out of Level 3	(60,000)	-	-	(60,000)
Balance, December 31, 2012	<u>\$ 136,004</u>	<u>\$ 2,654,788</u>	<u>\$ 1,562,254</u>	<u>4,353,046</u>
Balance, January 1, 2013	\$ 136,004	\$ 2,654,788	\$ 1,562,254	4,353,046
Unrealized gains/losses relating to instruments still held at the reporting date, (net)	5,817	432,956	193,559	632,332
Purchases, sales, issuances and settlements, (net)	(49,555)	-	-	(49,555)
Transfers in and/or out of Level 3	-	-	-	-
Balance, December 31, 2013	<u>\$ 92,266</u>	<u>\$ 3,087,744</u>	<u>\$ 1,755,813</u>	<u>4,935,823</u>

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(11) Fair Value Measurements (continued)

	Limited Partnership Hedge Funds	Real Property
Balance, January 1, 2012	\$ 97,966	\$ 436,260
Unrealized gains/losses relating to instruments still held at the reporting date, (net)	(22,574)	-
Purchase, sales, issuances and settlements, (net)	(20,279)	-
Balance, December 31, 2012	<u>\$ 55,113</u>	<u>\$ 436,260</u>
Balance, January 1, 2013	\$ 55,113	\$ 436,260
Unrealized gains/losses relating to instruments still held at the reporting date, (net)	(27,681)	-
Purchases, sales, issuances and settlements, (net)	(8,495)	-
Balance, December 31, 2013	<u>\$ 18,937</u>	<u>\$ 436,260</u>

The \$60,000 transfer out of level 3 represents the amount which the investment manager funded as cash for a “clawback” reserve. This reserve represents restricted cash held by the trustee as a reserve for potential claims, which dependent on other factors, could be released by the trustee at a future date.. The following table represents the Plan's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range of Significant Input Values</u>
Segregated Portfolio	\$92,266	Side pocket residual investment	Practical expedient	Not applicable
Absolute Return Pool Fund	\$3,087,743	Independent valuation statements from respective hedge funds	Practical expedient	Not applicable
Hedged Equity Fund	\$1,755,813	Independent valuation statements from respective hedge funds	Practical expedient	Not applicable
Limited Partnership Hedge Funds	\$18,937	Side pocket residual investment	Practical expedient	Not applicable
Real Property	\$436,260	Historical cost	Not applicable	Not applicable

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(11) Fair Value Measurements (continued)

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share.

<u>Instrument</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Segregated Portfolio	\$92,266	Not applicable	At the sole discretion of the General Partner	Not applicable
Absolute Return Pool Fund	\$3,087,743	Not applicable	Annually, only on December 31 at the expiration of the lockup period; shares are automatically reinvested at December 31 for an annual lock up	100 days, pursuant to a lockup provision for 12 months
Hedged Equity Fund	\$1,755,813	Not applicable	Quarterly, subject to a 12 month lockup provision	Written notice 75 days prior to quarter end
Limited Partnership Hedge Funds	\$18,937	Not applicable	At the sole discretion of the underlying hedge fund managers	Not applicable

(12) Endowment Net Assets

In accordance with the requirements, established by the FASB, for endowment funds, the Museum shall provide information about the net assets of its endowment funds. The Museum's Board of Directors (the Board) is of the belief they have a strong fiduciary duty to manage the assets of the Museum endowments in the most prudent manner possible. The Board recognizes the intent is to protect donor intent with respect to expenditures from endowments. If this intent is clearly expressed by the donor, whether the intent is in a written gift instrument or not, the intent of the donor is followed. If the intent is not expressed, the Board ensures the assets of the endowment are spent in a prudent manner which considers the purpose of the fund, current economic conditions, and preservation of the fund.

The investment goal is to ensure that the funds are invested for the exclusive benefit of the Museum in a prudent manner so that they will be available to meet the current and future needs of the Museum. It is the objective of this policy to generate long term growth coupled with sufficient income to support the current operating requirements of the Museum. An annual real total return (net of fees) of at least 5% measured over rolling five-year periods is expected. The goals and objectives of the Museum's investment policy are to 1) provide investment earnings adequate to fulfill the desires of donors as stated in the gift instruments, 2) achieve a total return adequate to fund the spending rate plus corpus growth to ensure future benefits to new generations, and 3) invest in a variety of diversified categories so that the diversity of the performance characteristics will reduce the volatility of returns from year to year.

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(12) Endowment Net Assets (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. The Museum had a decline in the fair market value of certain endowments of \$13,748, which reduced the value of the endowments to be below corpus at December 31, 2011. This amount was funded from the Katrina fund for the investment deficiencies. As of December 31, 2012, this amount has not been repaid.

The composition of the Museum's endowments by net asset class as of December 31, 2013 was:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, by type				
Donor-restricted endowment funds	\$ -	6,909,439	12,123,646	\$ 19,033,085
Board-designated endowment funds	11,006,103	-	13,013,687	24,019,790
Total funds	<u>\$ 11,006,103</u>	<u>6,909,439</u>	<u>25,137,333</u>	<u>\$ 43,052,875</u>
Change in endowment net assets				
Endowment net assets, beginning of year	<u>\$ 7,670,750</u>	<u>4,104,489</u>	<u>24,126,673</u>	<u>\$ 35,901,912</u>
Investment return -investment income	123,474	97,518	-	220,992
Net appreciation (realized and unrealized)	4,148,848	2,980,605	-	7,129,453
	<u>4,272,322</u>	<u>3,078,123</u>	<u>-</u>	<u>7,350,445</u>
Other income	-	-	760,660	760,660
Contributions	116,693	-	250,000	366,693
Subtotal	<u>4,389,015</u>	<u>3,078,123</u>	<u>1,010,660</u>	<u>8,477,798</u>
Other changes:				
Art purchase	-	16,000	-	16,000
Operating	63,823	56,413	-	120,236
Transfers out (in)	989,839	200,760	-	1,190,599
Subtotal	<u>1,053,662</u>	<u>273,173</u>	<u>-</u>	<u>1,326,835</u>
Endowment net assets, end of year	<u>\$ 11,006,103</u>	<u>6,909,439</u>	<u>25,137,333</u>	<u>\$ 43,052,875</u>

NEW ORLEANS MUSEUM OF ART

Notes to Financial Statements

December 31, 2013 and 2012

(12) Endowment Net Assets (continued)

The composition of the Museum's endowments by net asset class as of December 31, 2012 was:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, by type				
Donor-restricted endowment funds	\$ -	4,104,489	11,664,038	\$ 15,768,527
Board-designated endowment funds	7,670,750	-	12,462,635	20,133,385
Total funds	<u>\$ 7,670,750</u>	<u>4,104,489</u>	<u>24,126,673</u>	<u>\$ 35,901,912</u>
Change in endowment net assets				
Endowment net assets, beginning of year	<u>\$ 6,075,239</u>	<u>2,614,671</u>	<u>23,285,282</u>	<u>\$ 31,975,192</u>
Investment return:				
Investment income	205,123	153,527	-	358,650
Net appreciation (realized and unrealized)	<u>2,307,870</u>	<u>1,666,209</u>	<u>-</u>	<u>3,974,079</u>
	2,512,993	1,819,736	-	4,332,729
Other income	-	4,000	640,391	644,391
Contributions	<u>30,304</u>	<u>-</u>	<u>201,000</u>	<u>231,304</u>
Subtotal	<u>2,543,297</u>	<u>1,823,736</u>	<u>841,391</u>	<u>5,208,424</u>
Other changes:				
Art purchase	-	41,330	-	41,330
Operating	56,300	26,455	-	82,755
Transfers out (in)	<u>891,486</u>	<u>266,133</u>	<u>-</u>	<u>1,157,619</u>
Subtotal	<u>947,786</u>	<u>333,918</u>	<u>-</u>	<u>1,281,704</u>
Endowment net assets, end of year	<u>\$ 7,670,750</u>	<u>4,104,489</u>	<u>24,126,673</u>	<u>\$ 35,901,912</u>

(13) Expenses Paid by Related Party

The City of New Orleans pays certain costs on behalf of the Museum, including fine art insurance, property insurance, phone and internet service, and electricity, approximating \$635,000 and \$600,000 for the years ended December 31, 2013 and 2012, respectively. These costs have not been reflected in the financial statements of the Museum.

(14) Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 23 2014, and determined that there were no subsequent events requiring disclosure.

NEW ORLEANS MUSEUM OF ART

Schedule

December 31, 2013

NEW ORLEANS MUSEUM OF ART
Schedule of Endowment Funds
December 31, 2013

Endowment funds include both donor and board restricted funds and earnings thereon which have not yet for the purposes stipulated by the donor or board. The Endowment Funds are comprised of the following as of December 31, 2013:

	2013	2012
	Total	Total
	Net Assets	Net Assets
Acquisitions Endowment Funds		
William McDonald and Eva Carol Boles Endowment Fund	\$ 3,460,754	\$ 2,850,447
George Frierson Art Purchase Fund	1,479,064	1,218,229
Robert Gordy Art Purchase Fund	901,323	747,117
Carmen Donaldson Art Purchase Fund	673,862	568,204
Carrie Heiderich Acquisition Fund	518,500	428,826
Elise Mayer Bestoff Endowment Fund	466,603	384,318
Mervin G. Morais Endowment for Decorative Arts	326,833	287,693
Tina Freeman Photography Art Purchase Fund	323,324	266,306
P.R. and Sunny Norman Art Purchase Fund	321,000	264,391
Francoise Billion Richardson African Art Acquisition Fund	259,251	213,532
Joel Weinstock Art Purchase Fund	242,058	199,371
Alvin and Carol Merlin Acquisition Fund	52,530	43,267
Benjamin J. Harrod Art Purchase Fund	15,313	12,612
Augusta M. Jourdan Art Purchase Fund	14,832	12,216
Total Acquisitions Endowment Funds	9,055,247	7,496,529
Exhibition and Program Endowment Funds		
Azby Endowment Fund	315,027	303,560
Charlotte Mann & Joshua Mann Paillet Endowment Fund	264,392	253,560
Favrot Architecture and Design Endowment Fund	250,000	-
George F. Lapeyre Fund	170,280	140,251
Chapman H. Hyams 1951 Trust Fund	196,231	162,333
Chapman H. Hyams 1952 Trust Fund	17,165	14,197
Total Exhibition and Program Endowment Funds	1,213,095	873,901
Position Endowment Funds		
Ella West Freeman Foundation Director's Fund	1,479,690	1,274,093
RosaMary Foundation Curatorial Fund	1,512,934	1,302,806
Zemurray Foundation Curatorial Fund	1,512,429	1,302,371
Freeman Family Curatorial Fund	1,259,777	1,084,819
Francoise Billion Richardson Curator of African Art Endowment Fund	500,000	-
Total Position Endowment Funds	6,264,830	4,964,089

NEW ORLEANS MUSEUM OF ART
Schedule of Endowment Funds, Continued
December 31, 2013

	2013	2012
	Total	Total
	Net Assets	Net Assets
Education Endowment Funds		
Taylor Education Endowment Fund	\$ 575,585	\$ 517,799
Patrick F. Taylor Scholar Fund	430,571	383,846
Marian Dreux Van Horn II Youth Art Education Fund	182,800	157,043
Total Education Endowment Funds	1,188,956	1,058,688
Operations Endowment Funds		
General Operating Endowment Fund	24,019,789	20,423,777
Besthoff Operating Endowment Fund	1,310,958	1,109,850
Total Operating Endowment Funds	25,330,747	21,533,627
Total Endowment Funds	\$ 43,052,875	\$ 35,926,834
Reconciliation with Statement of Financial Position		
Net assets:		
Unrestricted:		
Unrestricted, operating	\$ 1,872,699	\$ 1,666,699
Board designated, investment in building	11,834,660	12,046,390
Board designated, functioning as operating endowments	11,006,103	7,670,750
Total unrestricted net assets	24,713,462	21,383,839
Temporarily restricted	10,848,084	7,425,155
Permanently restricted	25,137,333	24,126,673
Total net assets	60,698,879	52,935,667
Less items not included in endowments:		
Unrestricted net assets in operating fund	(1,872,699)	(1,666,699)
Board designated, investment in building	(11,834,660)	(12,046,390)
Temporarily restricted assets in funds for specified purposes	(3,938,645)	(3,295,744)
	(17,646,004)	(17,008,833)
Total Endowment Funds, net assets	\$ 43,052,875	\$ 35,926,834

See accompanying independent auditors' report.