

**TELFAIR MUSEUM  
OF ART, INC.**

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**Financial Statements  
and  
Independent Auditors' Report  
Years Ended December 31, 2011 and 2010**

# Telfair Museum of Art, Inc.

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**HANCOCK ASKEW & CO LLP**  
ACCOUNTANTS & ADVISORS

**Independent Auditors' Report**

The Board of Trustees  
Telfair Museum of Art, Inc.  
Savannah, Georgia

We have audited the accompanying statement of financial position of the Telfair Museum of Art, Inc. (the Museum) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Museum's 2010 financial statements and in our report dated April 29, 2011, we expressed an unqualified opinion on those financial 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 misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we express no such opinion. 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 the Telfair Museum of Art, Inc. at December 31, 2011, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*Hancock Askew & Co. L.L.P.*

Savannah, Georgia  
May 8, 2012

# Telfair Museum of Art, Inc.

## Statements of Financial Position

<i>December 31,</i>	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 566,189	\$ 340,978
Investments, at fair market value	21,830,346	23,734,670
Accounts receivable	138,332	200,255
Interest receivable	61,612	60,706
Promises to give, net	464,959	645,646
Charitable foundation beneficial interest	976,000	976,000
Inventory	135,645	137,367
Other assets	310,484	337,327
Property, net	25,429,653	26,076,131
Collections (Note 1)	-	-
	<b>\$ 49,913,220</b>	<b>\$ 52,509,080</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Trade accounts payable, accrued expenses and other liabilities	\$ 234,910	\$ 827,839
Jepson Center construction payables	-	16,290
Deferred revenue	48,412	39,896
Notes and bonds payable	6,000,000	6,756,313
	<b>6,283,322</b>	<b>7,640,338</b>
<b>Net assets</b>		
Unrestricted		
Undesignated	21,612,432	20,770,419
Board designated endowment	5,138,454	7,210,868
Temporarily restricted	11,559,191	11,567,634
Permanently restricted endowment	5,319,821	5,319,821
	<b>43,629,898</b>	<b>44,868,742</b>
	<b>\$ 49,913,220</b>	<b>\$ 52,509,080</b>

*See the accompanying notes to the financial statements.*

# Telfair Museum of Art, Inc.

## Statements of Activities

	Year ended December 31, 2011 with comparative totals for 2010				2011	2010
	Unrestricted		Temporarily Restricted	Permanently Restricted	Total	Total
	Undesignated	Board Designated Endowment		Endowment		
<b>Revenue</b>						
Contributions	\$ 1,203,722	\$ -	\$ 416,077	\$ -	\$ 1,619,799	\$ 1,076,667
Governmental support and grants	-	-	165,958	-	165,958	255,446
Membership dues	170,571	-	-	-	170,571	189,441
Admission charges	977,285	-	-	-	977,285	907,292
Investment income	2,053	295,105	236,256	-	533,414	631,496
Sales, net	248,163	-	-	-	248,163	241,739
Benefits, net	160,345	-	-	-	160,345	129,761
Other revenue	234,169	-	-	-	234,169	506,356
Net realized gain on sale of investments	(285)	910,350	371,100	-	1,281,165	371,276
Unrealized appreciation (depreciation) of investments	(2,238)	(1,000,201)	(301,841)	-	(1,304,280)	1,532,667
Net assets released from restriction	895,993	-	(895,993)	-	-	-
	3,889,778	205,254	(8,443)	-	4,086,589	5,842,141
<b>Expenses</b>						
Personnel costs	2,109,889	-	-	-	2,109,889	2,208,981
Administration	556,144	-	-	-	556,144	1,148,062
Interest	156,605	-	-	-	156,605	488,341
Curatorial	450,773	-	-	-	450,773	414,626
Education	127,942	-	-	-	127,942	105,667
Promotion	328,429	-	-	-	328,429	270,091
Maintenance and security	190,771	-	-	-	190,771	138,687
Insurance	144,693	-	-	-	144,693	158,952
Utilities	316,967	-	-	-	316,967	321,053
Depreciation	735,870	-	-	-	735,870	1,027,934
	5,118,083	-	-	-	5,118,083	6,282,394
<b>Change in net assets before collection items</b>	(1,228,305)	205,254	(8,443)	-	(1,031,494)	(440,253)
<b>Collection items purchased and not capitalized</b>	(207,350)	-	-	-	(207,350)	(118,551)
<b>Change in net assets</b>	(1,435,655)	205,254	(8,443)	-	(1,238,844)	(558,804)
<b>Transfers</b>	2,277,668	(2,277,668)	-	-	-	-
<b>Net assets, beginning of year</b>	20,770,419	7,210,868	11,567,634	5,319,821	44,868,742	45,427,546
<b>Net assets, end of year</b>	\$ 21,612,432	\$ 5,138,454	\$ 11,559,191	\$ 5,319,821	\$ 43,629,898	\$ 44,868,742

See accompanying notes to the financial statements.

# Telfair Museum of Art, Inc.

## Statements of Cash Flows

<i>Years ended December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>		
Change in net assets	\$ (1,238,844)	\$ (558,804)
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation	735,870	1,027,934
Reduction in allowance for uncollectible promises to give	(15,861)	(78,013)
Amortization of discount for net promises to give	(15,952)	(199,102)
Non-cash loss on interest rate swap	27,095	150,469
Net realized gains on sales of investments	(1,281,165)	(371,276)
Unrealized depreciation (appreciation) of investments	1,304,280	(1,532,667)
Increase in fair value of beneficial interest	-	(92,000)
Changes in assets and liabilities		
Accounts receivable	61,923	(70,296)
Interest receivable	(906)	(4,061)
Promises to give	212,500	1,929,499
Inventory	1,722	11,002
Other assets	26,843	(39,663)
Trade accounts payable, accrued expenses and other liabilities	(620,024)	155,052
Jepson Center construction payables	(16,290)	(6,804)
Deferred revenue	8,516	4,912
<b>Cash (used in) provided by operating activities</b>	<b>(810,293)</b>	<b>326,182</b>
<b>Investing activities</b>		
Purchase of property	(89,392)	(175,799)
Purchase of investments	(13,017,620)	(11,097,765)
Proceeds from sales and maturities of investments	14,898,829	10,717,641
<b>Cash provided (used for) by investing activities</b>	<b>1,791,817</b>	<b>(555,923)</b>
<b>Financing activities</b>		
Proceeds from borrowings	2,664,577	2,730,318
Repayments of borrowings	(3,420,890)	(2,449,473)
<b>Cash (used for) provided by financing activities</b>	<b>(756,313)</b>	<b>280,845</b>
<b>Increase in cash</b>	<b>225,211</b>	<b>51,104</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>340,978</b>	<b>289,874</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 566,189</b>	<b>\$ 340,978</b>

### Supplemental cash flow disclosures, Note 15

*See accompanying notes to the financial statements.*

### 1. Summary of Significant Accounting Policies

#### General

The Telfair Museum of Art, Inc. (the Museum), a not-for-profit organization, operates the Telfair Academy of Arts and Science, the Owens - Thomas House and the Jepson Center for the Arts in Savannah, Georgia. These facilities are open to the public for viewing of their collections of fine and decorative arts. The Museum offers exhibition, educational and cultural programs.

The Museum qualifies as a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

#### 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 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

#### Net Assets

The Museum reports information regarding its financial position and activities according to three classes of net assets: permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets contain donor imposed restrictions stipulating that the resources be maintained permanently as endowment funds. Generally, donors permit the Museum to use part or all of the investment return from the donated assets for specified or unspecified purposes.

Temporarily restricted net assets contain donor imposed restrictions that permit the Museum to use or expend the donated assets as specified. The restriction is satisfied either by the passage of time or by actions of the Museum.

Unrestricted net assets include all resources that are not subject to donor imposed restrictions. Certain of these resources have been designated by the Museum's Board of Trustees for specific purposes and are included in the accompanying statement of financial position in unrestricted board designated endowment net assets. The Board of Trustees can release this designation at its discretion. All other unrestricted resources are included in unrestricted undesignated net assets.

### 1. Summary of Significant Accounting Policies (cont.)

#### Endowment

The Endowment consists of those funds permanently restricted by donors and those funds designated as such by the Board of Trustees. Endowment assets and other restricted assets are pooled for investment purposes. Income, including interest, dividends and realized and unrealized gains and losses from the pooled investments, are allocated among individual restricted and unrestricted funds based on their respective percentage of the total pooled funds balance at the beginning of each quarter in which income is earned.

All investment income, gains, and losses earned on donor restricted endowments are reported in unrestricted, board designated net assets.

The Endowment pays out an amount for annual support of operations equal to 5% of the average market value at the end of the preceding three years of certain restricted and unrestricted funds.

#### Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period the contributions or the unconditional promise is received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions are recorded in the statement of activities as unrestricted, temporarily restricted or permanently restricted revenues based on donor stipulations. When donor restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Temporarily restricted contributions received during the year for which the restrictions are met during the same year are recorded as temporarily restricted contributions and net assets released from restriction in the statement of activities.

Non-monetary contributions are recorded at estimated fair value at the date of receipt except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized.

A number of volunteers have contributed significant amounts of time to the Museum; however, no amounts have been reflected in the accompanying financial statements for such contributed services as these services do not meet the criteria for recognition as contributions under generally accepted accounting principles.



**1. Summary of  
Significant  
Accounting  
Policies (cont.)**

**Collections**

The collections include two historic landmark homes, furnishings, paintings and fine and decorative art objects. All items in the collection are deemed inexhaustible assets. According to Museum policy, any proceeds from the sale of the collection items will be reinvested in other collection items.

The Museum has elected not to capitalize the collections.

**Admissions and Memberships**

Admission revenue is recorded when received. Membership revenue is recorded when received unless related to future annual membership periods, in which case the revenue is deferred until earned.

**Cash and Cash Equivalents**

The Museum considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents placed with investment managers are classified as investments.

**Accounts Receivable**

The Museum reports accounts receivable at net realizable value. The Museum evaluates the collectability of receivables based upon a review of outstanding receivables, historical collection information, and existing economic conditions. An allowance for uncollectible receivables is provided based on management's evaluation of potential uncollectible contributions receivable at year end. Accounts receivable are charged off when management deems them uncollectible.

**Inventory**

Inventory, consisting primarily of publishing and retailing merchandise, is valued at the lower of cost or market.

**1. Summary of  
Significant  
Accounting  
Policies (cont.)**

**Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment income is recorded on an accrual basis.

The Museum owns investments in limited partnerships that invest their assets in common stocks of public companies, as well as various investment funds. The Museum's investments in the limited partnerships are recorded at its share of the market value of the limited partnerships' net assets.

**Promises to Give**

Unconditional promises to give that are expected to be collected within one year are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are discounted to their present value. Amortization of the discount is recorded as an adjustment to contributions revenue.

An allowance for uncollectible contributions is provided based on management's evaluation of potential uncollectible contributions receivable at year end. Changes in the allowance for uncollectible contributions are charged to the provision for bad debt expense.

**Property**

Property is recorded at cost less accumulated depreciation. The Museum capitalizes expenditures on capital assets greater than \$2,500. The basis of evaluation for depreciable assets is cost if purchased or fair value if contributed. Depreciation is computed using the straight-line method over the estimated useful lives of the property as follows:

# Telfair Museum of Art, Inc.

## Notes to Financial Statements

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1. Summary of Significant Accounting Policies (cont.)	Years
Buildings	50
Building improvements	5 - 25
Equipment and fixtures	5 - 10

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The Museum reviews long lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable.

### Interest Rate Swap Agreements

The Museum enters into interest rate swap agreements to mitigate the risk of rising interest rates on its variable rate debt. The swaps are recorded at fair value in accordance with financial accounting standards. Changes in the fair market value of the interest rate swap agreements are included in interest expense in the Museum's statement of activities.

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

### Reclassification

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation. These reclassifications have no effect on the previously reported change in net assets.

### 2. Uninsured Deposits

The Museum maintains cash balances at various financial institutions. Cash balances maintained in investment accounts were uninsured. Uninsured deposits were approximately \$2,148,000 at December 31, 2011.

# Telfair Museum of Art, Inc.

## Notes to Financial Statements

### 3. Investments

Investments are stated at fair value and consist of the following:

	2011			2010		
	Cost	Market Value	Unrealized Appreciation	Cost	Market Value	Unrealized Appreciation
Cash	\$2,928,346	\$ 2,947,896	\$ 19,550	\$ 1,079,612	\$ 1,108,851	\$ 29,239
Money markets	488,366	488,366	-	882,222	882,222	-
Equity securities	8,686,800	10,667,619	1,980,819	10,968,487	13,933,320	2,964,833
Government obligations	2,112,091	2,224,890	112,799	2,352,410	2,430,968	78,558
Corporate bonds	1,503,408	1,551,777	48,369	1,285,063	1,331,762	46,699
Mutual funds	2,000,000	1,914,199	(85,801)	833,997	1,134,795	300,798
Limited partnerships	1,435,454	2,035,599	600,145	2,352,718	2,912,752	560,034
	<b>\$19,154,465</b>	<b>\$21,830,346</b>	<b>\$2,675,881</b>	<b>\$19,754,509</b>	<b>\$ 23,734,670</b>	<b>\$ 3,980,161</b>

Fees related to investments were approximately \$172,000 and \$170,000 in 2011 and 2010, respectively.

### 4. Promises to Give

The Museum's contributions receivable consist of unconditional promises to give as follows:

<i>December 31,</i>	2011	2010
Receivable in less than one year	\$ 224,643	\$ 287,250
Receivable in one to five years	266,000	430,893
Receivable in more than five years	15,000	-
Total promises to give	505,643	718,143
Less discounts to present value	12,024	27,976
Less allowance for uncollectible promises	28,660	44,521
Net promises to give	\$ 464,959	\$ 645,646

# Telfair Museum of Art, Inc.

## Notes to Financial Statements

4. **Promises to Give (cont.)** Promises to give that are due after a year are discounted to present value using discount rates ranging from 2.5% to 6.0%.

During 2005, a group of four benefactors pledged a total of \$5,000,000 to create a trust to support the Jepson Center for the Arts (the Jepson Center), which opened to the public in March, 2006. During 2006, two of these benefactors pledged an additional \$1,000,000 each for the trust to support the Jepson Center. During 2009, a new benefactor pledged a total of \$1,000,000 for the trust to support the Jepson Center. At December 31, 2011 and 2010, \$400,000 and \$600,000, respectively, is included in total promises to give related to this pledge. These promises to give are recorded in temporarily restricted net assets and the collected pledges are included in the endowment funds. The restriction on these contributions expires in October 2015.

5. **Property** Property consists of the following:

<i>December 31,</i>	<b>2011</b>	<b>2010</b>
Land	\$ 1,254,866	\$ 1,254,866
Buildings and improvements	27,368,722	27,356,693
Equipment and fixtures	2,685,840	2,608,477
	<b>31,309,428</b>	<b>31,220,036</b>
Less accumulated depreciation	5,879,775	5,143,905
	<b>\$ 25,429,653</b>	<b>\$ 26,076,131</b>

Depreciation expense for property was approximately \$736,000 and \$1,028,000 for 2011 and 2010, respectively.

6. **Notes and Bonds Payable** Notes and bonds payable consist of the following:

<i>December 31,</i>	<b>2011</b>	<b>2010</b>
Line of credit	\$ -	\$ 756,313
Tax exempt bonds	6,000,000	6,000,000
	<b>\$ 6,000,000</b>	<b>\$ 6,756,313</b>

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**6. Notes and  
Bonds  
Payable (cont.)**

The Museum had \$6,000,000 in tax exempt revenue bonds as of December 31, 2011 and 2010. The Bonds are tax exempt municipal revenue bonds issued by the Savannah Economic Development Authority (SEDA). The Bonds mature over 20 years beginning in 2016 and accrue interest at a floating rate. Interest accrued at 67% of LIBOR plus 2.50% until July 31, 2011. On August 1, 2011, the Museum renegotiated the agreement under which interest accrues at 67% of LIBOR plus 2.0%. The interest rate in effect at December 31, 2011 and 2010 was 1.52% and 2.67% respectively, and the average rate paid on the Bonds during 2011 and 2010 was 1.69% and 1.86%, respectively. The agreement is collateralized by the real assets of the Museum.

The Museum entered into an interest rate swap agreement with a notional amount of \$6,000,000 pursuant to which the Museum paid interest at the fixed rate of 3.69% and receives interest at a floating rate. Net payments or receipts under the agreement were recognized as an adjustment to interest expense. The interest rate swap agreement originally expired on May 16, 2016. At December 31, 2010, the total fair value of the swap agreement approximated a liability of \$573,000. On January 28, 2011 the Museum terminated the swap agreement through the payment of a termination payment in the amount of \$600,000.

The Museum has a \$1,000,000 revolving line of credit with a bank to be used for general working capital needs. All outstanding principal and accrued interest is due at maturity on July 30, 2012. The facility bears interest at one month LIBOR plus 2.25%. Interest only is payable monthly in arrears. The interest rate in effect at December 31, 2011 and 2010, was 2.52% and 3.0% respectively. The facility requires the Museum to maintain total minimum net assets of \$32,000,000 and to limit capital expenditures annually to \$500,000 except for those made from funds received after April 1, 2006 which are donor designated, restricted from grants or casualty insurance proceeds.

**7. Employee  
Benefit Plans**

The Museum sponsors an employee savings plan, covering substantially all employees meeting certain age and service requirements. The Museum made no contributions to the plan for the years ended December 31, 2011 and 2010.

The Museum also sponsors a Section 403(b) salary reduction plan covering substantially all employees. This plan is funded exclusively by employee salary deferrals.

# Telfair Museum of Art, Inc.

## Notes to Financial Statements

8. **Temporarily Restricted Net Assets** Temporarily restricted net assets are available for the following purposes:

<i>December 31,</i>	<b>2011</b>	<b>2010</b>
Acquisitions	\$ 1,787,452	\$ 1,832,481
Decorative arts collection management	314,309	331,257
Capital campaign	445,166	435,459
Jepson Center operations	8,699,876	8,631,612
Other	312,388	336,825
	<b>\$ 11,559,191</b>	<b>\$ 11,567,634</b>

9. **Expenses Presented on a Functional Basis** Expenses presented on a functional basis are as follows:

<i>Years ended December 31,</i>	<b>2011</b>	<b>2010</b>
Museum activities	\$ 4,211,063	\$ 4,496,951
Fund development	305,519	348,443
General and administrative	808,851	1,555,551
	<b>\$ 5,325,433</b>	<b>\$ 6,400,945</b>

10. **Bequest**

In her last will and testament local artist, Ms. Myrtle Jones King, a benefactor and friend of the Museum, established a charitable trust known as the Myrtle Braddy Jones King Charitable Foundation (the Foundation). Bank of America, N.A. (the Trustee) was named to serve as Trustee. The Museum was named a 50% income beneficiary of the Foundation. Under the terms of the will, the Trustee will invest the Foundation's assets and will pay the net income (or so much as may be required to preserve the tax-exempt status of the Foundation) to the beneficiaries at least annually. The Museum will receive 50% of the Foundation's income annually. The asset is classified as a level three asset in the valuation hierarchy. The fair value, as measured by the net present value using a five percent discount rate, of the Museum's expected future benefits from the Foundation was estimated and recorded in 2007 as temporarily restricted contribution revenue, and as a Charitable Foundation Beneficial Interest asset.

# Telfair Museum of Art, Inc.

## Notes to Financial Statements

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### 10. Bequest (cont.)

During 2010, the estimated fair value increased to \$976,000. This increase in fair value was a result of the increase in the fair market value of the assets of the Foundation and the related increase in estimated future cash flows to the Museum. During 2010, the Museum received approximately \$18,000 in distributions from the Foundation. The increase in the estimated fair value of approximately \$92,000, net of distributions, is reported as temporarily restricted contribution revenue for 2010.

At December 31, 2011, the estimated fair value was unchanged at \$976,000. The cash flow assumptions and discount rate were both adjusted down to approximately three percent resulting in no change to the value of the beneficial interest. During 2011, the Museum received approximately \$18,000 in distributions from the Foundation.

### 11. Advertising Expenses

The Museum expenses advertising costs as incurred. Advertising expenses were approximately \$299,000 and \$174,000 in 2011 and 2010, respectively.

### 12. Leases and Contracts

The Museum leases several pieces of equipment under non-cancellable operating lease contracts and enters into non-cancellable contracts for maintenance of equipment. The approximate minimum future payments related to these non-cancellable contracts as of December 31, 2011 are as follows:

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2012	\$	87,000
2013		82,000
2014		83,000
2015		87,000
2016		91,000
	\$	430,000

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The Museum recorded approximately \$14,000 of expense related to these contracts in 2011.



**13. Fair Value of  
Financial  
Instruments**

**Valuation Hierarchy**

Accounting principles generally accepted in the United States of America establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following tables set forth (by level within the fair value hierarchy) the Museum's assets and liability measured at fair value as of December 31, 2011 and 2010. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**Assets and Liability at Fair Value  
(in thousands)**

<i>December 31, 2011</i>	Level 1	Level 2	Level 3	Total
<b>Assets (investments)</b>				
Cash	\$ 2,948	\$ -	\$ -	\$ 2,948
Money markets	487	-	-	487
Equity securities	10,668	-	-	10,668
Government obligations	2,225	-	-	2,225
Corporate bonds	1,552	-	-	1,552
Mutual funds	1,914	-	-	1,914
Limited partnerships	-	2,036	-	2,036
Beneficial interest	-	-	976	976
<b>Total assets measured at fair value</b>	<b>\$ 19,794</b>	<b>\$ 2,036</b>	<b>\$ 976</b>	<b>\$ 22,806</b>

# Telfair Museum of Art, Inc.

## Notes to Financial Statements

### 13. Fair Values of Financial Instruments (cont.)

<i>December 31, 2010</i>	Assets and Liability at Fair Value (in thousands)			
	Level 1	Level 2	Level 3	Total
<b>Assets (investments)</b>				
Cash	\$ 1,109	\$ -	\$ -	\$ 1,109
Money markets	882	-	-	882
Equity securities	13,933	-	-	13,933
Government obligations	2,431	-	-	2,431
Corporate bonds	1,332	-	-	1,332
Mutual funds	1,135	-	-	1,135
Limited partnerships	-	1,929	984	2,913
Beneficial interest	-	-	976	976
<b>Total assets measured at fair value</b>	<b>\$ 20,822</b>	<b>\$ 1,929</b>	<b>\$ 1,960</b>	<b>\$ 24,711</b>
<b>Liability</b>				
Interest rate swap	\$ -	\$ 573	\$ -	\$ 573
<b>Total liability measured at fair value</b>	<b>\$ -</b>	<b>\$ 573</b>	<b>\$ -</b>	<b>\$ 573</b>

The tables below set forth a summary of changes in the fair value of the Museum's level 3 investment assets for the years ended December 31, 2011 and 2010.

<i>Year ended December 31, 2011</i>	Level 3 Investment Assets (in thousands)	
	Limited Partnerships	Beneficial Interest
Balance, January 1	\$ 984	\$ 976
Realized gains	40	-
Unrealized gains relating to instruments still held at the reporting date	-	-
Sales	(1,024)	-
Change in discount rate	-	54
Change in cash flow projections	-	(54)
Transfers in and/or out of level 3	-	-
<b>Balance, December 31, 2011</b>	<b>\$ -</b>	<b>\$ 976</b>

**13. Fair Values  
of Financial  
Instruments  
(cont.)**

<i>Year ended December 31, 2010</i>	Level 3 Investment Assets (in thousands)	
	Limited Partnerships	Beneficial Interest
Balance, January 1	\$ 871	\$ 884
Realized gains	34	-
Unrealized gains relating to instruments still held at the reporting date	79	-
Appreciation of fair market value of trust assets	-	92
Transfers in and/or out of level 3	-	-
<b>Balance, December 31, 2010</b>	<b>\$ 984</b>	<b>\$ 976</b>

**14. Endowment**

The Museum's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions and board designations.

**Interpretation of Relevant Law**

The Board of Trustees of the Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the 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 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 organization and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

**14. Endowment  
(cont.)**

**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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce long term capital growth while assuming a moderate level of investment risk. The Museum expects its endowment funds, over time, to provide an average rate of return of five percent plus the current rate of inflation. Actual returns in any given year may vary from this amount.

**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-based investments to achieve its long-term return objectives within prudent risk constraints.

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

The Museum has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior three years through the calendar year-end preceding the fiscal year in which the distribution is planned. 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 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.

**15. Supplemental  
Cash Flow and  
Non-Cash  
Financing  
Activity  
Disclosures**

Cash paid during the year for interest was approximately \$122,000 and \$338,000 in 2011 and 2010, respectively.

The Museum received in-kind advertising services of approximately \$70,000 and \$25,000 in 2011 and 2010, respectively in exchange for use of Museum facilities. These donations were recognized as other revenue and promotion expense respectively. In 2011, the Museum also received an in-kind donation of advertising in the amount of \$16,505. This amount was included in contribution revenue.

**16. Subsequent  
Events**

The Museum has evaluated subsequent events through May 8, 2012, the date the financial statements were available to be issued.

For 2012 only, the Museum temporarily increased its annual appropriation of endowment funds for distribution to 6% of endowment fund's average fair value over the prior three years through the calendar year-end preceding the fiscal year in which the distribution is planned.