

**ALLIED ARTS FOUNDATION, INC.**

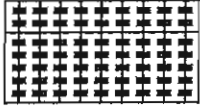
**FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

# ALLIED ARTS FOUNDATION, INC.

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***KNOL & MINNEY, PLLC***  
**CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Allied Arts Foundation, Inc.

We have audited the accompanying statements of financial position of Allied Arts Foundation, Inc. (a non-profit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the management of Allied Arts Foundation, Inc. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Allied Arts Foundation, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Knol & Minney, PLLC*

February 20, 2012

ALLIED ARTS FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$1,654,413	\$1,772,774
Pledges receivable, net of \$50,500 and \$86,000 allowance for uncollectible pledges, respectively	882,925	631,570
Other receivables	11,291	13,511
Investments	2,215,439	1,950,571
Property and equipment, net of \$158,974 and \$125,771 accumulated depreciation, respectively	119,975	139,560
Beneficial interest in assets held by others	<u>552,127</u>	<u>481,263</u>
<b>TOTAL ASSETS</b>	<b><u>\$5,436,170</u></b>	<b><u>\$4,989,249</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 9,309	\$ 23,647
Accrued payroll and related withholding payable	50,250	48,581
Deferred revenue	13,203	-
Allocations payable (within one year)	<u>2,282,623</u>	<u>2,193,130</u>
<b>Total liabilities</b>	<b><u>2,355,385</u></b>	<b><u>2,265,358</u></b>
<b>Net assets</b>		
<b>Unrestricted</b>		
Operations	126,877	253,537
Board designated		
Centennial Fund	1,465,439	1,250,671
Less: Pledges included in Temporarily Restricted Oklahoma City Community Foundation	<u>552,127</u>	<u>481,263</u>
Total unrestricted	2,144,343	1,985,371
Temporarily restricted	<u>936,442</u>	<u>738,520</u>
<b>Total net assets</b>	<b><u>3,080,785</u></b>	<b><u>2,723,891</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$5,436,170</u></b>	<b><u>\$4,989,249</u></b>

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES

For the years ended June 30, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>OPERATING REVENUES, GAINS AND SUPPORT</b>						
Annual campaign contributions	\$ -	\$ 2,910,857	\$2,910,857	\$ 11,824	2,921,532	\$2,933,356
In-kind contributions	140,815	-	140,815	149,777	-	149,777
Other contributions	49,341	32,461	81,802	15,250	23,037	38,287
Golf tournament, net of \$584 and \$5,126 expense, respectively	(164)	-	(164)	23,261	-	23,261
Other events, net of \$131,417 and \$23,149 expense, respectively	2,500	151,547	154,047	2,499	45,215	47,714
Other income	13,137	-	13,137	4,607	-	4,607
Net assets released from restriction	<u>2,896,943</u>	<u>(2,896,943)</u>	<u>-</u>	<u>2,727,466</u>	<u>(2,727,466)</u>	<u>-</u>
Total operating revenues, gains and support	<u>3,102,572</u>	<u>197,922</u>	<u>3,300,494</u>	<u>2,934,684</u>	<u>262,318</u>	<u>3,197,002</u>
<b>OPERATING ALLOCATIONS AND EXPENSES</b>						
Program expenses						
Grants and allocations	2,247,627	-	2,247,627	2,165,230	-	2,165,230
Grant support and other services	<u>223,150</u>	<u>-</u>	<u>223,150</u>	<u>242,335</u>	<u>-</u>	<u>242,335</u>
Total program services	<u>2,470,777</u>	<u>-</u>	<u>2,470,777</u>	<u>2,407,565</u>	<u>-</u>	<u>2,407,565</u>
Supporting services						
Management and general	268,026	-	268,026	250,504	-	250,504
Fundraising	<u>552,357</u>	<u>-</u>	<u>552,357</u>	<u>562,972</u>	<u>-</u>	<u>562,972</u>
Total supporting services	<u>820,383</u>	<u>-</u>	<u>820,383</u>	<u>813,476</u>	<u>-</u>	<u>813,476</u>
Total operating allocations and expenses	<u>3,291,160</u>	<u>-</u>	<u>3,291,160</u>	<u>3,221,041</u>	<u>-</u>	<u>3,221,041</u>
Changes in net assets from operations	<u>(188,588)</u>	<u>197,922</u>	<u>9,334</u>	<u>(286,357)</u>	<u>262,318</u>	<u>(24,039)</u>
(continued)						

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES  
For the years ended June 30, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted		Unrestricted	Temporarily Restricted	
		Total	Total		Total	Total
NONOPERATING CHANGES						
Investment activity						
Interest earned on investments	42,702	-	42,702	57,458	-	57,458
Investment management fees	(9,403)	-	(9,403)	(8,538)	-	(8,538)
Investment income received from OCCF	51,733	-	51,733	51,913	-	51,913
Net gain (loss) of sale of investments	50,588	-	50,588	(68,914)	-	(68,914)
Unrealized gain (loss) on investments	141,076	-	141,076	197,284	-	197,284
Net change in beneficial interest in assets held by others	<u>70,864</u>	<u>-</u>	<u>70,864</u>	<u>29,512</u>	<u>-</u>	<u>29,512</u>
Total nonoperating changes	<u>347,560</u>	<u>-</u>	<u>347,560</u>	<u>258,715</u>	<u>-</u>	<u>258,715</u>
CHANGES IN NET ASSETS	158,972	197,922	356,894	(27,642)	262,318	234,676
NET ASSETS, BEGINNING OF YEAR	<u>1,985,371</u>	<u>738,520</u>	<u>2,723,891</u>	<u>2,013,013</u>	<u>476,202</u>	<u>2,489,215</u>
NET ASSETS, END OF YEAR	<u>\$2,144,343</u>	<u>\$ 936,442</u>	<u>\$3,080,785</u>	<u>\$1,985,371</u>	<u>\$ 738,520</u>	<u>\$2,723,891</u>

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2011

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Grants &amp; Allocations</u>	<u>Grant Support &amp; Other Services</u>	<u>Management &amp; General</u>	<u>Fund Raising</u>	
Member agency allocations	\$2,150,127	\$ -	\$ -	\$ -	\$2,150,127
Education outreach	97,500	-	-	-	97,500
Personnel	-	126,159	176,249	199,152	501,560
In-kind goods and services:					
Campaign	-	-	-	136,688	136,688
Meetings	-	225	314	356	895
Other expenses	-	566	791	893	2,250
Professional services	-	4,973	6,948	7,851	19,772
Marketing	-	8,703	-	24,072	32,775
Office expense:					
Printing	-	7,892	2,576	22,319	32,787
Postage	-	4,712	2,421	4,703	11,836
Telephone	-	1,905	2,661	3,007	7,573
Dues and subscriptions	-	3,090	4,317	4,877	12,284
Bank charges	-	-	9,676	10,933	20,609
Supplies	-	946	1,094	256	2,296
Other expenses	-	3,053	3,585	4,759	11,397
Technology	-	5,205	7,271	8,216	20,692
Occupancy	-	20,561	28,725	32,458	81,744
Travel	-	1,433	2,002	2,263	5,698
Meetings	-	3,034	2,835	4,790	10,659
Events	-	-	-	66,051	66,051
Depreciation	-	8,352	11,667	13,184	33,203
Insurance	-	1,451	2,028	2,291	5,770
Bad debt expense	-	20,890	2,866	3,238	26,994
<b>Total allocations and expenses</b>	<b><u>\$2,247,627</u></b>	<b><u>\$223,150</u></b>	<b><u>\$268,026</u></b>	<b><u>\$552,357</u></b>	<b><u>\$3,291,160</u></b>

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2010

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Grants &amp; Allocations</u>	<u>Grant Support &amp; Other Services</u>	<u>Management &amp; General</u>	<u>Fund Raising</u>	
Member agency allocations	\$2,050,230	\$ -	\$ -	\$ -	\$2,050,230
Education outreach	115,000	-	-	-	115,000
Personnel	-	123,487	164,266	204,945	492,698
In-kind goods and services	-	-	-	149,777	149,777
Professional services	-	5,164	6,869	8,571	20,604
Marketing	-	9,214	-	21,728	30,942
Office expense:					
Printing	-	6,024	1,678	20,179	27,881
Postage	-	3,110	2,810	1,657	7,577
Telephone	-	2,055	2,733	3,410	8,198
Dues and subscriptions	-	1,350	1,796	2,240	5,386
Bank charges	-	-	6,063	7,564	13,627
Supplies	-	2,052	2,021	883	4,956
Other expenses	-	1,587	1,940	2,288	5,815
Technology	-	5,523	7,346	9,166	22,035
Occupancy	-	20,490	27,256	34,006	81,752
Travel	-	1,218	1,490	1,758	4,466
Meetings	-	4,276	3,739	6,679	14,694
Events	-	-	-	62,546	62,546
Depreciation	-	8,567	11,395	14,218	34,180
Insurance	-	1,392	1,851	2,310	5,553
Bad debt expense	-	46,826	7,251	9,047	63,124
<b>Total allocations and expenses</b>	<b><u>\$2,165,230</u></b>	<b><u>\$242,335</u></b>	<b><u>\$250,504</u></b>	<b><u>\$562,972</u></b>	<b><u>\$3,221,041</u></b>

See accompanying notes to financial statements.



ALLIED ARTS FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets from operations	\$ 9,334	\$ (24,039)
Adjustments to reconcile change in net assets from operations to cash flows from operating activities:		
Depreciation	33,203	34,180
Non-cash contributions	(26,888)	(22,342)
Decrease (increase) in:		
Pledges receivable	(251,355)	(220,068)
Other receivables	2,220	(3,788)
Increase (decrease) in:		
Accounts payable	(14,338)	15,998
Accrued payroll and withholding	1,669	30,156
Deferred income	13,203	-
Allocations payable	89,493	55,231
Total adjustments	<u>(152,793)</u>	<u>(110,633)</u>
NET CASH USED OPERATING ACTIVITIES	<u>(143,459)</u>	<u>(134,672)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash payments for the purchase of property and equipment	(8,901)	(1,281)
Interest received on investments	42,702	57,458
Distributions received on beneficial interest	25,387	25,457
Distributions received on other third-party funds	26,346	26,456
Cash payments for the purchase of investments	(782,662)	(316,931)
Cash proceeds from the sale/maturity of investments	<u>722,226</u>	<u>771,617</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>25,098</u>	<u>562,776</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash payments on capital lease obligation	<u>-</u>	<u>(3,829)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>-</u>	<u>(3,829)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(118,361)	424,275
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,772,774</u>	<u>1,348,499</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$1,654,413</u>	<u>\$1,772,774</u>

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

Allied Arts Foundation, Inc. (Allied Arts) was incorporated in 1971 under the laws of the State of Oklahoma to conduct unified annual fund drives to provide financial support for certain Oklahoma City cultural agencies. Allied Arts also provides additional services in support of the cultural community in the Oklahoma City area including education outreach, community grants, financial oversight of member agencies, cultural community impact activities, input on related public policies, volunteer coordination and support, planning for cultural community needs, information and referral services and participation with national affiliates.

*Basis of Presentation*

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Allied Arts reports information regarding its financial position and changes in net assets according to three classes of net assets, based on the existence or absence of donor-imposed restrictions, if any, as follows:

**Unrestricted** - expendable amounts available for use without restriction.

**Temporarily Restricted** - amounts which have been temporarily restricted by donors for specific purposes or time periods.

**Permanently Restricted** - amounts required to be maintained for the benefit of Allied Arts with income generated by such amounts available for purposes specified by the donor.

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates. Significant estimates used in preparing the financial statements include the collectibility of pledges receivable. It is at least reasonably possible that the significant estimates used will change within the next year.

*Cash and equivalents*

Allied Arts considers highly liquid investments with original maturities of three months or less and held outside of managed investment accounts to be cash equivalents.

ALLIED ARTS FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fair Value Measurements*

Accounting Standards Codification (ASC) Topic 820 requires Allied Arts to disclose estimated fair values for all financial instruments and establishes a fair value hierarchy for inputs used in measuring fair value. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Financial instruments in the statement of financial position currently include investments and beneficial interests. Investments, consisting of debt and equity securities and mutual funds investing in these types of securities, are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date. The beneficial interest in assets held by others is considered a Level 2 asset and is reported at fair value based on the valuation provided by the fund manager.

*Property and Equipment*

Purchased assets are recorded at cost, and donated assets are recorded at market value at the time of donation. Property and equipment valued at \$500 or more is capitalized and depreciated over an estimated useful life of two to ten years on a straight-line basis.

*Contributions*

Gifts of cash and other assets are reported 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 reported in the statement of activities as net assets released from restrictions. Allied Arts reports gifts of land, buildings and equipment 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 those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Contributed materials are recorded at market value at the time of donation, and contributed services are recorded at the fair value of the services, provided they meet the following criteria:

ALLIED ARTS FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Contributions (continued)*

- Create or enhance non-financial assets; or
- Require specialized skills, are provided by individuals possessing those skills and would typically be purchased if not provided by donation.

Allied Arts receives services from many volunteers who give significant amounts of their time to Allied Arts' programs, fund-raising campaigns and management. No amounts have been reflected for these types of donated services, as they do not meet the criteria outlined above.

*Functional expenses*

Expenses incurred for Allied Arts to provide their programs and services to the community are categorized and reported on a functional basis as follows:

**Program services** - including agency allocations, education outreach, community grants, financial oversight of member agencies, cultural community impact activities, public policy input, volunteer coordination and support, planning for cultural community needs, providing information and referrals and participation in national affiliates.

**Management and general** - including organizational oversight, business management and finance activities.

**Fundraising** - including activities related to the annual campaign fundraising drive, as well as donor development and cultivation activities.

Expenses are allocated among the program and supportive services benefited based upon either actual usage or the estimated cost attributable to each function.

*Income Taxes*

Allied Arts is an exempt organization under Internal Revenue Service (IRS) Code Section 501(c)(3) and is not classified as a private foundation within the meaning of IRS Code Section 509(a). Therefore, no provision has been made in the financial statements for income taxes.

ALLIED ARTS FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011 and 2010

**NOTE 2 - TEMPORARILY RESTRICTED NET ASSETS**

Changes in temporarily restricted net assets occurred as follows:

	Balance <u>6-30-2010</u>	<u>2011</u>		Balance <u>6-30-2011</u>
		<u>Received</u>	<u>Released</u>	
Annual campaign pledges	\$685,309	\$2,910,857	\$(2,664,691)	\$931,475
Annual campaign expenses	14,700	24,000	(38,700)	-
Other events and projects	38,411	160,008	(193,552)	4,867
Centennial Fund pledges	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
 Total	 <u>\$738,520</u>	 <u>\$3,094,865</u>	 <u>\$(2,896,943)</u>	 <u>\$936,442</u>

All temporarily restricted net assets are expected to be received and/or used within the next year.

**NOTE 3 – CENTENNIAL FUND**

During the year ended June 30, 2006, Allied Arts initiated the Centennial Endowment Fund (the Fund) in conjunction with the State of Oklahoma’s centennial celebration. While founding donors to the Fund have not placed any restriction on their gifts, it is Allied Arts’s intention to treat these funds as endowment with the principal of the gifts being retained and the income used for purposes designated by their board of directors. Total gifts and pledges to the Fund as of June 30, 2011 were \$1,157,142. See Note 9 for additional information on this fund.

**NOTE 4 - INVESTMENTS**

Allied Arts’ investments consisted of:

	<u>2011</u>	<u>2010</u>
Certificates of deposit	\$ 750,000	\$ 700,000
Money market mutual funds	21,454	31,642
Equity securities	910,930	604,235
Fixed income securities	<u>533,055</u>	<u>614,694</u>
	<u>\$2,215,439</u>	<u>\$1,950,571</u>

**NOTE 5 – CONTRIBUTED GOODS AND SERVICES**

Contributed goods and services included primarily the value of certain design, production, printing and advertising services related to the annual campaign contributed by area businesses.

ALLIED ARTS FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 6 – RETIREMENT PLAN**

Allied Arts has established a SIMPLE IRA Plan for the benefit of all employees with no provision for earnings or term of service requirements. The plan provides for Allied Arts to make contributions to the plan based on matching 100% of up to 3% of salary deferrals elected by each employee, with such matching percentage determined annually by the board of directors. Allied Arts' matching contributions for the years ended June 30, 2011 and 2010 totaled \$5,606 and \$6,277, respectively.

**NOTE 7 - CONCENTRATIONS**

Included in cash and cash equivalents are money market mutual funds totaling \$1,248,435 and \$1,361,245 at June 30, 2011 and 2010, respectively, which were not covered by FDIC insurance. Included in investments are money market mutual funds totaling \$21,454 and \$31,642 at June 30, 2011 and 2010, respectively, which were not covered by FDIC insurance. The broker-dealers of the mutual funds and its security customers are generally covered by the basic insurance of Security Investors Protection Corporation (SIPC). This coverage does not insure any declines in market value of the funds.

Contributors to Allied Arts are almost exclusively individuals and businesses in the Oklahoma City metropolitan area, and approximately ninety percent of the total operating support for Allied Arts is raised during its annual campaign. As a result, support of Allied Arts is highly dependent upon the general economic conditions in the area and upon the success of its annual campaign. However, Allied Arts believes the risk of near term severe impact on their operations due to these concentrations is limited by the diversity among donor entities.

**NOTE 8 - OKLAHOMA CITY COMMUNITY FOUNDATION**

Allied Arts and other donors have contributed to funds administered by the Oklahoma City Community Foundation, Inc. (OCCF) for the benefit of Allied Arts. According to OCCF policy, the principal amounts of such contributions become the legal assets of OCCF.

Financial accounting standards provide that the value of reciprocal transfer assets, that is assets transferred by Allied Arts to organizations raising or holding contributions for others, such as OCCF, be recognized as assets in the financial statements of the transferor. They also provide that the value of assets contributed by others to these types of organizations for the benefit of a specified beneficiary specifically not be recognized and recorded by the beneficiary. Allied Arts' beneficial interest in reciprocal transfer assets included:

Market value of Beneficial interest in assets held by others at July 1, 2009	\$451,751
Change during the year ended June 30, 2010	29,512
Change during the year ended June 30, 2011	<u>70,864</u>
Market value of Beneficial interest in assets held by others at June 30, 2011	<u>\$552,127</u>

ALLIED ARTS FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011 and 2010

**NOTE 8 - OKLAHOMA CITY COMMUNITY FOUNDATION (continued)**

The market value of assets contributed by others to OCCF for the benefit of Allied Arts and, therefore, not recorded in the financial statements was \$1,145,543 and \$995,082 at June 30, 2011 and 2010, respectively, which includes \$572,489 and \$495,650, respectively, administered outside the Allied Arts Affiliated Fund.

Annual distributions from earnings of the Allied Arts Affiliated Fund are based on OCCF's spending policy attributable to its Affiliated Funds which is currently five percent of the average market value over the previous twelve quarters. Distributions to Allied Arts under the spending policy of \$51,733 and \$51,913 were received during the years ended June 30, 2011 and 2010, respectively, and are included in investment income in the statements of activities. Also included in campaign income is \$23,817 for the year ended June 30, 2011, from assets administered by OCCF outside the Allied Arts Affiliated Fund. Distributions from this Fund are made at the discretion of the Fund trustees, and no distribution was received during the year ended June 30, 2010.

**NOTE 9 - ENDOWMENT**

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Allied Arts does not currently hold donor-restricted endowment funds, but maintains a board-designated fund for similar purposes described in Note 3 above.

Changes in endowment net assets included:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets as of July 1, 2010	\$1,250,571	\$ 100	\$1,250,671
Investment return (loss):			
Investment income	21,554	-	21,554
Net appreciation (realized & unrealized)	<u>191,637</u>	<u>-</u>	<u>191,637</u>
Total investment return (loss)	213,191	-	213,191
Contributions	<u>1,677</u>	<u>-</u>	<u>1,677</u>
Endowment net assets at June 30, 2011	<u>\$1,465,439</u>	<u>\$ 100</u>	<u>\$1,465,539</u>

Allied Arts has adopted an investment policy for their board-designated endowment assets designed to, in the future, provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended, over the long-term to:

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**NOTE 9 – ENDOWMENT (continued)**

- Enhance the total value of the endowment through appreciation, contributions, and/or the reinvestment of excess current earnings;
- Preserve capital and avoid the risk of large loss;
- Maintain sufficient liquidity to provide for all anticipated withdrawals and to invest in issues with sufficient marketability to provide for unexpected withdrawals.

To satisfy its long-term objectives, Allied Arts seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Allied Arts 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. Allied Arts is not currently appropriating earnings from their board-designated endowment funds for current use but are reinvesting the earnings to achieve fund growth.

**NOTE 10 – LEASE COMMITMENTS**

Allied Arts has entered into operating leases for certain office equipment and office space. Lease expense related to these agreements totaling \$82,290 and \$78,644 is included in operating expense for the years ended June 30, 2011 and 2010, respectively.

**NOTE 11 – INCOME TAXES**

On July 1, 2009, Allied Arts adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles with no cumulative effect adjustment required. Income tax benefits would be recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position would more-likely-than-not be sustained upon examination by taxing authorities. Management has analyzed tax positions taken for filing with the Internal Revenue Service and the Oklahoma Tax Commission and believes that income tax filing positions would be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the financial condition, results of operations or cash flows. Accordingly, no reserves or related accruals for interest and penalties for uncertain income tax positions were recorded at June 30, 2011 or 2010.

Allied Arts is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years ending on or before June 30, 2007.

**NOTE 12 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 20, 2012, which is the date the financial statements were available to be issued.



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**NOTE 13 – ADDITIONAL CASH FLOW STATEMENT DISCLOSURES**

	<u>2011</u>	<u>2010</u>
Common stock, contributed in-kind	\$22,171	\$22,342
Cash paid for interest	-	334