

ALLIED ARTS FOUNDATION, INC.

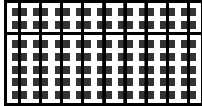
FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

ALLIED ARTS FOUNDATION, INC.

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KNOL & MINNEY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012 and 2011, 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, 2012 and 2011, 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

April 29, 2013

ALLIED ARTS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$1,746,271	\$1,654,413
Pledges receivable, net of \$35,518 and \$50,500 allowance for uncollectible pledges, respectively	891,162	882,325
Investments	2,483,452	2,215,439
Property and equipment, net of \$173,895 and \$158,974 accumulated depreciation, respectively	102,892	119,975
Other assets	42,354	11,891
Beneficial interest in assets held by others	<u>535,501</u>	<u>552,127</u>
TOTAL ASSETS	<u>\$5,801,632</u>	<u>\$5,436,170</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 17,978	\$ 9,309
Accrued payroll and related withholding payable	59,169	50,250
Deferred revenue	22,200	13,203
Allocations payable (within one year)	<u>2,367,501</u>	<u>2,282,623</u>
Total liabilities	<u>2,466,848</u>	<u>2,355,385</u>
Net assets		
Unrestricted		
Operations	326,203	126,877
Board designated		
Centennial Fund	1,483,452	1,465,439
Less: Pledges included in Temporarily Restricted	(100)	(100)
Oklahoma City Community Foundation	<u>535,501</u>	<u>552,127</u>
Total unrestricted	2,345,056	2,144,343
Temporarily restricted	<u>989,728</u>	<u>936,442</u>
Total net assets	<u>3,334,784</u>	<u>3,080,785</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,801,632</u>	<u>\$5,436,170</u>

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES, GAINS AND SUPPORT						
Annual campaign contributions	\$1,135,100	\$ 2,041,422	\$3,176,522	\$ -	\$2,910,857	\$2,910,857
Contributed services and in-kind contributions	35,450	-	35,450	140,815	-	140,815
Other contributions	21,031	76,500	97,531	49,341	32,461	81,802
Golf tournament, net of \$7,691 and \$584 expense, respectively	39,590	-	39,590	(164)	-	(164)
Other events, net of \$34,396 and \$131,417 expense, respectively	34,222	119,624	153,846	2,500	151,547	154,047
Other income	16,996	-	16,996	13,137	-	13,137
Net assets released from restriction	<u>2,184,260</u>	<u>(2,184,260)</u>	<u>-</u>	<u>2,896,943</u>	<u>(2,896,943)</u>	<u>-</u>
Total operating revenues, gains and support	<u>3,466,649</u>	<u>53,286</u>	<u>3,519,935</u>	<u>3,102,572</u>	<u>197,922</u>	<u>3,300,494</u>
OPERATING ALLOCATIONS AND EXPENSES						
Program expenses						
Grants and allocations	2,364,117	-	2,364,117	2,247,627	-	2,247,627
Grant support and other services	<u>277,059</u>	<u>-</u>	<u>277,059</u>	<u>223,150</u>	<u>-</u>	<u>223,150</u>
Total program services	<u>2,641,176</u>	<u>-</u>	<u>2,641,176</u>	<u>2,470,777</u>	<u>-</u>	<u>2,470,777</u>
Supporting services						
Management and general	250,656	-	250,656	268,026	-	268,026
Fundraising	<u>430,167</u>	<u>-</u>	<u>430,167</u>	<u>552,357</u>	<u>-</u>	<u>552,357</u>
Total supporting services	<u>680,823</u>	<u>-</u>	<u>680,823</u>	<u>820,383</u>	<u>-</u>	<u>820,383</u>
Total operating allocations and expenses	<u>3,321,999</u>	<u>-</u>	<u>3,321,999</u>	<u>3,291,160</u>	<u>-</u>	<u>3,291,160</u>
 Changes in net assets from operations	 <u>144,650</u>	 <u>53,286</u>	 <u>197,936</u>	 <u>(188,588)</u>	 <u>197,922</u>	 <u>9,334</u>

(continued)

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES
 For the years ended June 30, 2012 and 2011

(continued)	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
NONOPERATING CHANGES						
Investment activity						
Interest earned on investments	40,377	-	40,377	42,702	-	42,702
Investment management fees	(9,658)	-	(9,658)	(9,403)	-	(9,403)
Investment income received from OCCF	50,061	-	50,061	51,733	-	51,733
Net gain (loss) on sale of investments	28,319	-	28,319	50,588	-	50,588
Unrealized gain (loss) on investments	(36,410)	-	(36,410)	141,076	-	141,076
Net change in beneficial interest in assets held by others	(16,626)	-	(16,626)	70,864	-	70,864
 Total nonoperating changes	 56,063	 -	 56,063	 347,560	 -	 347,560
 CHANGES IN NET ASSETS	 200,713	 53,286	 253,999	 158,972	 197,922	 356,894
NET ASSETS, BEGINNING OF YEAR	2,144,343	936,442	3,080,785	1,985,371	738,520	2,723,891
 NET ASSETS, END OF YEAR	 <u>\$2,345,056</u>	 <u>\$ 989,728</u>	 <u>\$3,334,784</u>	 <u>\$2,144,343</u>	 <u>\$ 936,442</u>	 <u>\$3,080,785</u>

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2012

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	Grant		Management & General	Fund Raising	
	<u>Grants & Allocations</u>	<u>Support & Other Services</u>			
Member agency allocations	\$2,253,617	\$ -	\$ -	\$ -	\$2,253,617
Education outreach	110,500	-	-	-	110,500
Personnel	-	162,585	162,860	204,790	530,235
Occupancy	-	25,524	25,567	32,150	83,241
Events	-	-	-	63,156	63,156
Office expense:					
Printing (including in-kind)	-	13,098	8,878	45,563	67,539
Postage	-	3,107	827	2,874	6,808
Telephone	-	2,127	2,130	2,679	6,936
Dues and subscriptions	-	2,552	2,556	3,214	8,322
Bank charges	-	-	7,896	9,928	17,824
Supplies	-	2,294	2,083	271	4,648
Other expenses	-	5,960	4,991	5,653	16,604
Bad debt expense	-	23,034	3,321	4,177	30,532
Depreciation	-	8,767	8,782	11,044	28,593
Professional services	-	7,603	7,616	9,577	24,796
Marketing	-	6,057	-	17,014	23,071
Technology	-	6,733	6,744	8,481	21,958
Meetings	-	4,012	2,792	5,054	11,858
Travel	-	1,572	1,575	1,980	5,127
Insurance	-	2,034	2,038	2,562	6,634
Total allocations and expenses	<u>\$2,364,117</u>	<u>\$277,059</u>	<u>\$250,656</u>	<u>\$430,167</u>	<u>\$3,321,999</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>
	Grant		Management & General	Fund Raising	
	<u>Grants & Allocations</u>	<u>Support & Other Services</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
Occupancy	-	20,561	28,725	32,458	81,744
Events	-	-	-	66,051	66,051
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
Depreciation	-	8,352	11,667	13,184	33,203
Marketing	-	8,703	-	24,072	32,775
Bad debt expense	-	20,890	2,866	3,238	26,994
Technology	-	5,205	7,271	8,216	20,692
Professional services	-	4,973	6,948	7,851	19,772
Meetings	-	3,034	2,835	4,790	10,659
Travel	-	1,433	2,002	2,263	5,698
Insurance	-	1,451	2,028	2,291	5,770
Total allocations and expenses	<u>\$2,247,627</u>	<u>\$223,150</u>	<u>\$268,026</u>	<u>\$552,357</u>	<u>\$3,291,160</u>

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets from operations	\$ <u>197,936</u>	\$ <u>9,334</u>
Adjustments to reconcile change in net assets from operations to cash flows from operating activities:		
Depreciation	28,593	33,203
Non-cash contributions	-	(26,888)
Decrease (increase) in:		
Pledges receivable	(8,837)	(251,355)
Other assets	(30,463)	2,220
Increase (decrease) in:		
Accounts payable	6,785	(14,338)
Accrued payroll and withholding	8,919	1,669
Deferred income	8,997	13,203
Allocations payable	<u>84,878</u>	<u>89,493</u>
Total adjustments	<u>98,872</u>	<u>(152,793)</u>
NET CASH PROVIDED (USED) OPERATING ACTIVITIES	<u>296,808</u>	<u>(143,459)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash payments for the purchase of property and equipment	(9,626)	(8,901)
Cash received on sale of property and equipment	1,000	-
Interest received on investments	40,377	42,702
Distributions received on beneficial interest	24,530	25,387
Distributions received on other third-party funds	25,531	26,346
Cash payments for the purchase of investments	(1,036,762)	(782,662)
Cash proceeds from the sale/maturity of investments	<u>750,000</u>	<u>722,226</u>
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(204,950)</u>	<u>25,098</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	91,858	(118,361)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,654,413</u>	<u>1,772,774</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$1,746,271</u>	<u>\$1,654,413</u>

See accompanying notes to financial statements.

ALLIED ARTS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Allied Arts reports investments in equity securities with readily determinable market values and all investments in debt securities at fair value based on quoted market prices with gains and losses included in the statement of activities.

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:

- 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.

ALLIED ARTS FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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' information returns for the years ending in 2010, 2011 and 2012 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 2 - INVESTMENTS

Allied Arts' investments consisted of:

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$1,000,000	\$ 750,000
Money market mutual funds	41,023	21,454
Equity mutual funds	886,546	910,930
Fixed income mutual funds	<u>555,883</u>	<u>533,055</u>
	<u>\$2,483,452</u>	<u>\$2,215,439</u>

ALLIED ARTS FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 and 2011

NOTE 3 – FAIR VALUE MEASUREMENTS

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis as of June 30, 2012, are as follows:

	<u>Fair Value</u>	<u>Significant Observable Inputs - Level 2</u>	<u>Significant Unobservable Inputs - Level 3</u>
Money market mutual funds	\$ 41,023	\$ 41,023	\$ -
Equity mutual funds	662,176	662,176	-
Fixed income mutual funds	555,883	555,883	-
Equity common trust funds	224,370	224,370	-
Beneficial interest	535,501	-	535,501

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis as of June 30, 2011, are as follows:

	<u>Fair Value</u>	<u>Significant Observable Inputs - Level 2</u>	<u>Significant Unobservable Inputs - Level 3</u>
Money market mutual funds	\$ 21,454	\$ 21,454	\$ -
Equity mutual funds	711,387	711,387	-
Fixed income mutual funds	533,055	533,055	-
Equity common trust funds	199,543	199,543	-
Beneficial interest	552,127	-	552,127

The Organization recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the years ended June 30, 2012 and 2011.

The various mutual funds and common trust funds are valued at the net asset value (NAV) of shares held in the funds on a daily basis. The beneficial interest is valued at the NAV of the underlying investments as reported by the fund administrator at year end. The changes in the value of the Level 3 – Beneficial Interest are outlined in Note 9 below.

ALLIED ARTS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets occurred as follows:

	Balance <u>6-30-2011</u>	<u>2012</u>		Balance <u>6-30-2012</u>
		<u>Received</u>	<u>Released</u>	
Annual campaign pledges	\$931,475	\$2,041,422	\$(2,113,867)	\$859,030
Annual campaign expenses	-	49,000	(35,500)	13,500
Other events and projects	4,867	119,624	(7,393)	117,098
Centennial Fund pledges	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
 Total	 <u>\$936,442</u>	 <u>\$2,210,046</u>	 <u>\$(2,156,760)</u>	 <u>\$989,728</u>

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

NOTE 5 – 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, 2012 were \$1,157,142. See Note 10 for additional information on this fund.

NOTE 6 – 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.

NOTE 7 – 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, 2012 and 2011 totaled \$5,459 and \$5,606, respectively.

ALLIED ARTS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 8 - CONCENTRATIONS

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 9 - 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, 2010	\$481,263
Change during the year ended June 30, 2011	70,864
Change during the year ended June 30, 2012	<u>(16,626)</u>
Market value of Beneficial interest in assets held by others at June 30, 2012	<u>\$535,501</u>

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 \$1,115,835 and \$1,145,543 at June 30, 2012 and 2011, respectively, which includes \$558,476 and \$572,489, 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 \$50,061 and \$51,733 were received during the years ended June 30, 2012 and 2011, respectively, and are included in investment income in the statements of activities. Also included in campaign income is \$24,921 and \$23,817 for the years ended June 30, 2012 and 2011, respectively, from assets administered by OCCF outside the Allied Arts Affiliated Fund. Distributions from this Fund are made at the discretion of the Fund trustees.

ALLIED ARTS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 10 - 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:

	Unrestricted	Temporarily Restricted	Total
Endowment net assets as of July 1, 2011	\$1,465,439	\$ 100	\$1,465,539
Investment return (loss):			
Investment income	27,060	-	27,060
Net appreciation/depreciation (realized & unrealized)	(9,047)	-	(9,047)
Total investment return	18,013	-	18,013
Contributions	-	-	-
Endowment net assets at June 30, 2012	<u>\$1,483,452</u>	<u>\$ 100</u>	<u>\$1,483,552</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:

- 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.

ALLIED ARTS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 11 – LEASE COMMITMENTS

Allied Arts has entered into operating leases for office space and equipment. Lease expense related to these agreements totaling \$80,586 and \$82,290 is included in operating expense for the years ended June 30, 2012 and 2011, respectively.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 29, 2013, which is the date the financial statements were available to be issued.

NOTE 13 – ADDITIONAL CASH FLOW STATEMENT DISCLOSURES

	<u>2012</u>	<u>2011</u>
Common stock, contributed in-kind	\$ -	\$22,171