



**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Financial Statements and Schedule

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 2100  
1003 Bishop Street  
Honolulu, HI 96813-6400

## **Independent Auditors' Report**

The Board of Trustees  
Honolulu Academy of Arts dba Honolulu Museum of Art:

We have audited the accompanying financial statements of Honolulu Academy of Arts dba Honolulu Museum of Art (the Museum), which comprise the statements of financial position as of June 30, 2014 and 2013, 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 U.S. generally accepted accounting principles; 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 audits. 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor considers 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 Honolulu Academy of Arts dba Honolulu Museum of Art as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses 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 audits 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.

**KPMG LLP**

Honolulu, Hawaii  
July 2, 2015

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Statements of Financial Position

June 30, 2014 and 2013

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Cash	\$ 1,511,394	1,119,957
Inventories	274,409	207,824
Contributions receivable, net	3,649,137	120,860
Prepaid expenses and other	213,010	347,853
Contributed rent	249,881	361,623
Investment in real estate	4,550,000	7,500,000
Land, buildings, and equipment, net of accumulated depreciation	33,118,522	33,104,376
Long-term investments	65,935,496	62,257,305
Beneficial interest in perpetual trusts	17,974,955	16,121,328
Total assets	\$ 127,476,804	121,141,126
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,008,372	956,490
Liabilities under split-interest agreements	2,212,250	2,468,252
Loans payable	3,989,263	7,008,073
Deferred revenue	160,127	523,286
Pension and other retirement obligations	4,797,253	3,576,177
Other	14,086	67,919
Total liabilities	12,181,351	14,600,197
Net assets:		
Unrestricted:		
Undesignated	25,525,322	21,779,611
Temporarily restricted	14,255,062	13,264,516
Permanently restricted	75,515,069	71,496,802
Total net assets	115,295,453	106,540,929
Commitments and contingencies		
Total liabilities and net assets	\$ 127,476,804	121,141,126

See accompanying notes to financial statements.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Statement of Activities

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenue, net gains, and other support:				
Gifts and bequests	\$ 5,049,640	1,392,347	368,634	6,810,621
Net realized and unrealized gain on investments	894,771	2,998,383	1,796,006	5,689,160
Gain on sale of investment in real estate	—	330,533	—	330,533
Impairment loss on investment in real estate	(450,000)	—	—	(450,000)
Change in value of split-interest agreements	(71,979)	6,171	1,853,627	1,787,819
Dividends and interest, net of investment fees and expenses of \$390,885	144,156	1,877,952	—	2,022,108
Museum shops and cafes	1,533,092	—	—	1,533,092
Trusts:				
R. Allerton Acquisition Fund and R. Allerton Trust	651,582	42,091	—	693,673
Others	223,604	25,752	—	249,356
Membership fees	1,240,242	—	—	1,240,242
Tuition and fees	1,332,520	—	—	1,332,520
Admissions	466,113	—	—	466,113
Governmental grants	—	153,731	—	153,731
Special events and other, net	1,560,952	—	—	1,560,952
Net assets released from restrictions – satisfaction of program and art and equipment acquisitions restrictions	5,836,414	(5,836,414)	—	—
Total revenue, net gains, and other support	<u>18,411,107</u>	<u>990,546</u>	<u>4,018,267</u>	<u>23,419,920</u>
Expenses:				
Program services:				
Education	4,113,560	—	—	4,113,560
Special exhibitions	2,597,231	—	—	2,597,231
Curatorial and conservation	2,008,214	—	—	2,008,214
Museum shops and cafes	1,876,719	—	—	1,876,719
Art acquisitions	201,545	—	—	201,545
Total program services	<u>10,797,269</u>	<u>—</u>	<u>—</u>	<u>10,797,269</u>
Supporting services:				
Management and general	2,439,411	—	—	2,439,411
Development	1,428,716	—	—	1,428,716
Total supporting services	<u>3,868,127</u>	<u>—</u>	<u>—</u>	<u>3,868,127</u>
Total expenses	<u>14,665,396</u>	<u>—</u>	<u>—</u>	<u>14,665,396</u>
Change in net assets	3,745,711	990,546	4,018,267	8,754,524
Net assets at beginning of year	<u>21,779,611</u>	<u>13,264,516</u>	<u>71,496,802</u>	<u>106,540,929</u>
Net assets at end of year	<u>\$ 25,525,322</u>	<u>14,255,062</u>	<u>75,515,069</u>	<u>115,295,453</u>

See accompanying notes to financial statements.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Statement of Activities

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenue, net gains, and other support:				
Gifts and bequests	\$ 1,980,466	2,441,434	185,461	4,607,361
Net realized and unrealized gain on investments	781,669	1,986,928	1,248,133	4,016,730
Loss on sale of property, plant, and equipment	(14,255)	—	—	(14,255)
Change in value of split-interest agreements	(227,579)	5,947	1,062,423	840,791
Dividends and interest, net of investment fees and expenses of \$273,432	114,794	1,003,159	—	1,117,953
Museum shops and cafes	1,484,590	—	—	1,484,590
Trusts:				
R. Allerton Acquisition Fund and R. Allerton Trust	635,760	41,991	—	677,751
Others	225,417	25,284	—	250,701
Membership fees	838,111	—	—	838,111
Tuition and fees	1,247,236	—	—	1,247,236
Admissions	406,481	—	—	406,481
Governmental grants	13,527	—	—	13,527
Special events and other, net	2,411,748	—	—	2,411,748
Net assets released from restrictions – satisfaction of program and art and equipment acquisitions restrictions	3,140,030	(3,140,030)	—	—
Total revenue, net gains, and other support	<u>13,037,995</u>	<u>2,364,713</u>	<u>2,496,017</u>	<u>17,898,725</u>
Expenses:				
Program services:				
Education	3,307,850	—	—	3,307,850
Special exhibitions	2,380,245	—	—	2,380,245
Curatorial and conservation	1,778,647	—	—	1,778,647
Museum shops and cafes	1,872,335	—	—	1,872,335
Art acquisitions	201,707	—	—	201,707
Total program services	<u>9,540,784</u>	<u>—</u>	<u>—</u>	<u>9,540,784</u>
Supporting services:				
Management and general	2,173,254	—	—	2,173,254
Development	1,872,113	—	—	1,872,113
Total supporting services	<u>4,045,367</u>	<u>—</u>	<u>—</u>	<u>4,045,367</u>
Total expenses	<u>13,586,151</u>	<u>—</u>	<u>—</u>	<u>13,586,151</u>
Change in net assets	(548,156)	2,364,713	2,496,017	4,312,574
Net assets at beginning of year	<u>22,327,767</u>	<u>10,899,803</u>	<u>69,000,785</u>	<u>102,228,355</u>
Net assets at end of year	<u>\$ 21,779,611</u>	<u>13,264,516</u>	<u>71,496,802</u>	<u>106,540,929</u>

See accompanying notes to financial statements.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Change in net assets	\$ 8,754,524	4,312,574
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions of investments	—	(2,166,823)
Depreciation and amortization	1,127,758	1,109,750
Net realized and unrealized (gain) loss on investments	(5,689,160)	(4,016,730)
Increase (decrease) in pension and other retirement obligations	1,221,075	(2,611,869)
Impairment loss on investment in real estate	450,000	—
Gain on sale of investment in real estate	(330,533)	—
Loss on sale of land, buildings, and equipment	—	14,255
Change in value of split-interest agreements	(1,787,818)	(840,791)
Contributions restricted for long-term investment	(433,634)	(252,497)
Changes in operating assets and liabilities:		
Decrease (increase) in inventories	(66,585)	127,820
Decrease (increase) in contributions receivable	(3,528,277)	106,640
Decrease in prepaid expenses and other	134,843	9,135
Increase (decrease) in accounts payable and accrued expenses	51,883	65,371
Decrease in liabilities under split-interest agreements	(321,811)	(338,176)
Decrease in deferred revenue	(363,159)	(137,847)
Increase (decrease) in other liabilities	(53,832)	(2,407)
Net cash used in operating activities	(834,726)	(4,621,595)
Cash flows from investing activities:		
Proceeds from sale of investments	22,196,383	17,164,333
Purchase of investments	(20,185,414)	(15,489,741)
Purchases of buildings and equipment	(1,030,162)	(643,041)
Proceeds from sale of land, buildings, and equipment	—	4,225
Proceeds from sale of investment in real estate	2,830,533	—
Net cash provided by investing activities	3,811,340	1,035,776
Cash flows from financing activities:		
Proceeds from issuance of loans payable	500,000	2,559,025
Payments on loans payable	(3,518,811)	(172,945)
Proceeds from contributions restricted for:		
Investment in endowment	368,634	200,511
Investment in land, buildings, and equipment	65,000	51,986
Net cash (used in) provided by financing activities	(2,585,177)	2,638,577
Net increase (decrease) in cash	391,437	(947,242)
Cash at beginning of year	1,119,957	2,067,199
Cash at end of year	\$ 1,511,394	1,119,957
Supplemental cash flow information:		
Interest paid	\$ 61,419	132,944

See accompanying notes to financial statements.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

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

**(a) General**

The Honolulu Academy of Arts dba Honolulu Museum of Art (the Museum) was founded in 1927 to provide educational and cultural enrichment in the arts. It is a private, nonprofit institution accredited by the American Association of Museums. The Museum's operations are conducted in the state of Hawaii.

On July 1, 2011, subject to the restrictions and conditions of the gift agreement signed by The Contemporary Museum (TCM) and the Museum, TCM gifted artwork, real property, pledge receivables, cash, and investments, to the extent transferable, to the Museum. The Museum recorded approximately \$25,491,000 as gifts and bequests related to the gift agreement in the accompanying statements of activities based on restrictions stipulated by the donor. Unrestricted, temporarily restricted, and permanently restricted net assets increased by approximately \$10,260,000, \$7,752,000, and \$7,479,000, respectively.

The real property gifted, comprised of three residential properties, was recorded at appraised values totaling \$14,600,000. Pursuant to the gift agreement, one property is to be used in the operations of the Museum and is recorded as a component of land, buildings, and equipment at a carrying value of \$6,300,000. The remaining properties are recorded as investment in real estate to be sold with a portion of the proceeds to be used to repay the Museum's loans payable balance. Proceeds in excess of the loans payable balance are to be used at the direction of the board of trustees. At June 30, 2014, the Museum's outstanding loans payable balance amounted to \$3,989,263, and accordingly, the portion of the gift restricted for repayment of the loans payable balance was recorded as temporarily restricted in the accompanying statements of activities. In July 2013, one of the remaining properties was sold to a third-party for a nominal gain.

**(b) Financial Statement Presentation**

Net assets and revenues, gains, losses, and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets 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 must be maintained permanently by the Museum. The donors of these assets permit the Museum to use all of the income earned on related investments for general or specific purposes.

**(c) Inventories**

Merchandise inventories consist of gift shop and cafe items and are recorded at the lower of cost (specific identification) or market.



**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

**(d) Investments**

Marketable securities are reported at fair value with unrealized gains and losses included in the statements of activities. Fair value is based on quoted market prices.

The Museum's alternative investments include hedge funds and "fund of funds," which may be invested in less liquid assets. Fair value is generally based on information provided by the respective external investment managers that is reviewed by management. The Museum believes that the carrying amount of these alternative investments is a reasonable estimate of fair value as of the respective balance sheet dates. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed. Such differences could be material. As described in note 1(o), the Museum utilized the net asset value per share at the respective balance sheet dates for certain alternative investments as a practical expedient for the estimation of the fair value of these investments.

Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

**(e) Investment in Real Estate**

Investment in real estate is reported at the lower of carrying value or fair value. Investment in real estate is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including quoted market values, and third-party independent appraisals, as considered necessary. In 2014 and 2013, the Museum recorded an impairment loss of \$450,000 and \$0, respectively, in the statements of activities.

**(f) Land, Buildings, and Equipment**

Land, buildings, and equipment are capitalized at cost, if purchased, or at fair market value at the date of the donation. Assets contributed for which the fair value is not determinable at the date of donation are recorded, as support, if and when such values are determined.

The Museum 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, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Depreciation on buildings and equipment is calculated on the straight-line method over the estimated useful lives of the assets.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

**(g) Contributions**

Contributions are recorded in the period received. Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using fair value rates in the years in which promises are received. Amortization of the discounts is included in gifts and bequests. Conditional contributions are recorded at their estimated fair value in the period the conditions are substantially met or in the period received if there is only a remote likelihood that those conditions will not be met.

The Museum provides an allowance for uncollectible contributions based upon historical experience with its donors as well as individual donor circumstances.

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 reported in the accompanying statements of activities as net assets released from restrictions.

**(h) Split-Interest Agreements**

The Museum's split-interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts, and charitable gift annuities for which the Museum serves as trustee. Assets held under these split-interest agreements are included in investments. Contribution revenues are recognized upon the effective date of the split-interest agreements as gifts and bequests in the accompanying statements of activities. Liabilities are recorded for the present value (utilizing discount rates ranging between 4% and 7.25%) of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are subsequently adjusted during the term of the split-interest agreements for changes in the fair value of the assets, accretion of the discount, and other changes in the estimates of future benefits. For the years ended June 30, 2014 and 2013, gifts and bequests related to pooled income funds, charitable remainder trusts, and charitable gift annuities amounted to approximately \$0 and \$100,900, respectively. For the years ended June 30, 2014 and 2013, changes in the value of liabilities under split-interest agreements related to pooled income funds, charitable remainder trusts, and charitable gift annuities amounted to \$(256,002) and \$(221,632), respectively.

**(i) Beneficial Interest in Perpetual Trusts**

The Museum receives contributions of interests in irrevocable perpetual trusts of which third-party entities serve as trustee. Initial recognition and subsequent adjustments to the Museum's beneficial interest in the trust assets carrying values are recognized as gifts and bequests revenue and changes in value of beneficial interest in perpetual trusts, respectively, and are classified as permanently restricted, as the trusts are to be invested in perpetuity by the trustee. For the years ended June 30, 2014 and 2013, income generated from the Museum's interests in beneficial interest in perpetual trusts amounted to \$943,029 and \$928,452, respectively. For the years ended June 30, 2014 and 2013, changes in the value of split-interest agreements associated with beneficial interests in perpetual trusts amounted to

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

\$1,853,627 and \$1,062,423, respectively. There were no new beneficial interests in perpetual trusts in 2014 and 2013.

**(j) Art Collection**

The Museum's art collection comprises works of art, which are held for exhibition, research, and educational purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for the collection.

Works of art in the Museum's collection are not recognized as assets in the statements of financial position. Purchases of art are recorded as decreases in unrestricted net assets in the year in which the items are acquired.

**(k) Pension and Other Postretirement Plans**

The Museum has a noncontributory defined benefit pension plan covering substantially all of its employees upon their retirement. The benefits are based on age, years of service, and the level of compensation during the five years before retirement. The Museum also sponsors a defined benefit postretirement plan for select employees.

The Museum records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. The Museum reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The Museum believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions. The effect of modifications to those assumptions is recorded in its changes in unrestricted net assets and amortization to net periodic cost over future periods. The Museum uses a measurement date of June 30.

The net periodic costs are recognized as employees render the services necessary to earn the pension and postretirement benefits.

In 2013, the Museum changed its method of recognizing actuarial gains and losses for pension benefits. Historically, the Museum has amortized actuarial gains and losses over the average future service period of the active employee of the defined benefit pension plan as program and supporting services expenses, to the extent such gains and losses were outside the corridor. The gains and losses within the corridor were reported in aggregate as retirement changes other than periodic benefit cost. The Museum has elected to immediately recognize all noncash actuarial gains and losses as a part of program and supporting services expenses in the year in which the gains and losses occur. While both methods are allowable under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 715-30, *Defined Benefit Plans – Pension*, it is generally preferable to accelerate the recognition of deferred gains and losses as part of program and supporting services expenses rather than to delay such recognition.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

**(l) *Deferred Revenue***

Deferred revenue represents annual membership dues collected for future periods subsequent to June 30, 2014 and 2013, and for exhibition fees received as deposits for traveling exhibitions organized by the Museum.

**(m) *Long-Lived Assets***

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Museum first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

**(n) *Income Taxes***

The Museum is an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal income taxes. However, the Museum is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

The Museum applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest, and penalties, disclosure, and transition. Management believes that no such uncertain tax position exists for the Museum requiring accrual or disclosure at June 30, 2014 or 2013. The Museum is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2009.

**(o) *Fair Value Measurements***

The Museum applies the provisions of FASB ASC Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value (note 12).

The Museum applies the provisions of ASC Topic 820 to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

The Museum applies the provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to its alternative investments. This standard amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value, using net asset value per share or its equivalent as a practical expedient.

**(p) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of land, buildings, and equipment, valuation of contributions and other receivables, investment in real estate, long-term investments, beneficial interest in perpetual trusts, liabilities under split-interest agreements, and assets and obligations related to retirement plans. Actual results could differ from those estimates.

**(q) Recently Issued Accounting Standards**

In October 2012, the FASB issued ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This ASU is effective for fiscal years beginning after June 15, 2013 and requires a not-for-profit entity to classify as operating activities in its statement of cash flows cash receipts from the sale of donated financial assets that were directed for sale by the entity on receipt and that were converted to cash in the near immediate term. The ASU applies specifically to the sale of donated financial assets that are not restricted for long-term purposes. The Museum has implemented the provisions of the new standard as of July 1, 2014.

**(2) Contributions Receivable**

Contributions receivable amounted to \$3,649,137 and \$120,860 at June 30, 2014 and 2013, respectively. The amounts expected to be received in less than one year and in one to five years are \$2,451,159 and \$1,197,978 at June 30, 2014, respectively. The amounts expected to be received in less than one year and in one to five years are \$120,860 and \$0 at June 30, 2013, respectively.

**(3) Contributed Rent**

The Museum leases land and a building for its Art School from the state of Hawaii. The lease is for a term of 55 years, through November 30, 2041. For the 10-year period beginning December 1, 2006, the lease is payable in annual installments of \$480. The annual rent will then be renegotiated at the expiration of the thirtieth (2016), fortieth (2026), and fiftieth (2036) year.

Contributed rent represents the net present value of the difference between the fair rental value of the property and the stated amount of the lease payments, which does not exceed the fair value of the real property at the lease commencement date. The amount is considered a temporarily restricted asset and will be released to unrestricted over the lease term.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

Contributed rent at June 30, 2014 and 2013 is \$249,881 and \$361,623, respectively, and the related amortization for the years ended June 30, 2014 and 2013 is \$111,742 and \$117,116, respectively. The contribution is discounted using the risk-free rate on the lease date of 4.81%.

**(4) Land, Buildings, and Equipment**

A summary of land, buildings, and equipment at June 30, 2014 and 2013 is as follows:

	Depreciable lives	Cost	
		2014	2013
Depreciable assets:			
Land improvements	20 years	\$ 327,186	267,983
Buildings	20–50 years	37,797,867	36,720,767
Equipment	5–10 years	5,103,661	4,889,629
		43,228,714	41,878,379
Less accumulated depreciation		16,640,468	15,624,452
		26,588,246	26,253,927
Land		6,530,276	6,530,276
Construction in progress		—	320,173
		\$ 33,118,522	33,104,376

Depreciation expense for the years ended June 30, 2014 and 2013 was \$1,016,016 and \$992,634, respectively.

**(5) Art Collection**

The Museum's collections, acquired through purchase and contributions, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded in the year in which the items were acquired. Contributed collection items are not reflected in the financial statements. The cost of art objects purchased was \$201,545 and \$201,707 for the years ended June 30, 2014 and 2013, respectively, and reported in the statements of activities.

Gifts of cash or other property restricted by donors for the purchase of art and artifacts for the collection or proceeds from deaccessions are recognized as income in temporarily restricted net assets and are only available to purchase art and artifacts for the Museum's collection. There were no proceeds from sale of collection items during the years ended June 30, 2014 and 2013. Unexpended gifts are included in the temporarily restricted net assets at June 30, 2014 and 2013.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

**(6) Loans Payable**

Loans payable at June 30, 2014 and 2013 consist of the following:

	<b>2014</b>	<b>2013</b>
Borrowings under a \$3,500,000 term loan with a bank, various interest rate options available at bank's base rate or LIBOR (1.084% at June 30, 2014), accrued interest due monthly, with principal due January 2015; secured by certain investments	\$ 3,459,663	3,459,663
Borrowings under a \$1,556,500 two-year fixed-rate of term loan with a bank, interest at 2.5% through August 10, 2014, with a new fixed rate determined based on prevailing rates, interest-only payments for the first 12 months, with equal monthly installments of principal and interest of \$17,398, final payment due May 2021, secured by certain investments	529,600	1,048,410
Borrowings under a \$2,500,000 bank loan, interest at 2.75%, accrued interest due monthly, with principal due September 2014; secured by certain real property	—	2,500,000
Total loans payable	\$ 3,989,263	7,008,073

In 2014, the Museum entered into a revolving line of credit with a bank that permits the Museum to borrow \$500,000 through April 11, 2015, at a floating rate which is subject to change from time to time based on the bank's prime rate (4.375% at June 30, 2014). As of June 30, 2014, the Company had \$0 outstanding on this revolving line of credit.

In July 2013, the \$2,500,000 bank loan was paid in full.

The loan agreements contain requirements for financial reporting to the banks, and restrictions on additional liens on assets and further significant indebtedness, as defined. The Museum received waivers from its lenders for requirements in which they were not in compliance.

The aggregate maturities of long-term debt for each of the five years subsequent to June 30, 2014 and thereafter are as follows:

Year ending June 30:	
2015	\$ 3,656,963
2016	202,500
2017	129,800
	\$ 3,989,263

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

**(7) Leases**

The Museum leases land, building, and improvements from the state of Hawaii for its Art School under an operating lease agreement that expires in 2041. The Museum also leases storage space under various operating leases on a month-to-month basis.

Total rent expense under operating leases for the years ended June 30, 2014 and 2013 was \$292,801 and \$335,111, respectively.

Future minimum lease commitments under noncancelable operating leases as of June 30, 2014 are as follows:

Year ending June 30:		
2015	\$	480
2016		480
2017		480
2018		480
2019		480
Thereafter		10,760
	\$	<u>13,160</u>

**(8) Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	<b>2014</b>	<b>2013</b>
Repayment of loans payable	\$ 3,989,263	4,621,993
Spalding House	175,118	719,000
Education	1,719,371	1,490,440
Museum operations	6,888,184	4,838,301
Art acquisitions	831,970	702,010
Special exhibitions	617,103	343,107
Curatorial and conservation	34,053	549,665
	\$ 14,255,062	13,264,516



**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

Net assets in the amount of \$5,836,414 and \$3,140,030 for the years ended June 30, 2014 and 2013, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2014</u>	<u>2013</u>
Special exhibitions	\$ 440,822	423,227
Spalding House	582,997	566,000
Education	406,864	384,933
Curatorial and conservation	265,718	260,036
Art acquisitions	191,131	201,707
Auxiliary and other	3,948,882	1,304,127
	<u>\$ 5,836,414</u>	<u>3,140,030</u>

**(9) Permanently Restricted Net Assets**

At June 30, 2014 and 2013, permanently restricted net assets (e.g., endowment funds) consisted of the following:

	<u>2014</u>	<u>2013</u>
Museum operations	\$ 59,340,783	55,632,399
Art acquisitions	7,614,916	7,590,161
Curatorial and conservation	3,570,754	3,411,175
Education	3,459,831	3,344,631
Special exhibitions	1,528,785	1,518,436
	<u>\$ 75,515,069</u>	<u>71,496,802</u>

**(10) Retirement Plans Benefits**

The Museum has a noncontributory defined benefit pension plan (pension plan) covering substantially all of its employees upon their retirement. The benefits are based on age, years of service, and the level of compensation during the five years before retirement. The Museum makes annual contributions to the plan consistent with the funding requirements of the Employee Retirement Income Security Act. The pension plan was frozen on June 1, 2009, and no participants have accrued any benefits under the pension plan after the plan's freeze.

The Museum also sponsors a noncontributory defined benefit supplemental retirement plan that provides retirement benefits to select full-time employees.

In 2013, the Museum changed its method of recognizing actuarial gains and losses for pension benefits as described in note 1(k) to the financial statements. This change in method has been reported through retrospective application of the 2012 reported amounts. The Museum uses a June 30 measurement date.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at June 30, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Pension benefits</u>	<u>Supplemental retirement plan benefits</u>	<u>Pension benefits</u>	<u>Supplemental retirement plan benefits</u>
Benefit obligation	\$ (10,948,714)	(687,598)	(12,122,483)	(612,253)
Fair value of plan assets	6,839,059	—	9,158,559	—
Funded status	<u>\$ (4,109,655)</u>	<u>(687,598)</u>	<u>(2,963,924)</u>	<u>(612,253)</u>
Amounts recognized in the statements of financial position consist of:				
Liabilities	\$ 4,109,655	687,598	2,963,924	612,253

Amounts recognized in change in net assets consist of the following:

	<u>2014</u>		<u>2013</u>	
	<u>Pension benefits</u>	<u>Supplemental retirement plan benefits</u>	<u>Pension benefits</u>	<u>Supplemental retirement plan benefits</u>
Net periodic benefit cost	\$ (159,801)	(18,334)	150,195	(20,271)
Net gain (loss)	(1,039,225)	(110,431)	(22,542)	69,335
	<u>\$ (1,199,026)</u>	<u>(128,765)</u>	<u>127,653</u>	<u>49,064</u>

Weighted average assumptions used to determine benefit obligations for 2014 and 2013 were as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Pension benefits</u>	<u>Supplemental retirement plan benefits</u>	<u>Pension benefits</u>	<u>Supplemental retirement plan benefits</u>
Discount rate	4.03%	2.70%	4.50%	3.13%
Rate of compensation increase	—	—	—	—

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

Weighted average assumptions used to determine net benefits cost for 2014 and 2013 were as follows:

	<b>2014</b>		<b>2013</b>	
	<b>Pension benefits</b>	<b>Supplemental retirement plan benefits</b>	<b>Pension benefits</b>	<b>Supplemental retirement plan benefits</b>
Discount rate	4.50%	3.13%	3.95%	2.95%
Expected long-term rate of return on plan assets	4.20%	N/A	7.00	N/A
Rate of compensation increase	—	N/A	—	3.00

In 2014, the Museum changed the composition of the plan assets resulting in an overall expected long-term rate of return on plan assets of 4.2%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the return on individual asset categories. The return is based exclusively on historical performance of similar assets, without adjustments.

The following table summarizes employer contributions and benefits paid during the years ended June 30, 2014 and 2013:

	<b>2014</b>		<b>2013</b>	
	<b>Pension benefits</b>	<b>Supplemental retirement plan benefits</b>	<b>Pension benefits</b>	<b>Supplemental retirement plan benefits</b>
Employer contributions	\$ —	53,420	2,633,656	53,420
Benefits paid	(2,700,853)	(53,420)	(595,230)	(53,420)

**(a) Plan Assets**

The asset allocations of the Museum's pension benefits as of the June 30 measurement date were as follows:

	<b>2014</b>	<b>2013</b>
Asset category:		
Debt securities	96.50%	99.00%
Other	3.50	1.00
Total	<u>100.00%</u>	<u>100.00%</u>

The Museum's investment policies and strategies for the pension benefits plan do not use target allocations for the individual asset categories. The Museum's investment goals are to maximize returns subject to specific risk management policies. Its risk management policies permit investments in mutual funds, debt and equity securities, and prohibits investments in derivative financial instruments, commodities, and foreign securities, other than those listed on a major U.S. security exchange. The

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

Museum addresses diversification by the use of mutual fund investments whose underlying investments are in domestic and international fixed-income securities and domestic and international equity securities. These mutual funds are readily marketable and can be sold to fund benefit payment obligations as they become payable.

The following tables present the Museum's pension plan assets measured at fair value as of June 30, 2014 and 2013:

<b>Fair value measurements at June 30, 2014</b>				
<b>Pension benefits – plan assets</b>				
		<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
	<b>Total</b>			
Asset category:				
Cash	\$ 241,284	241,284	—	—
U.S. Treasury obligations	1,564,637	—	1,564,637	—
U.S. government agencies	1,226,845	—	1,226,845	—
Municipal obligations	81,390	—	81,390	—
Mutual funds – fixed income	2,143,167	2,143,167	—	—
Corporate bonds	1,581,736	—	1,581,736	—
Total	\$ 6,839,059	2,384,451	4,454,608	—

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

<b>Fair value measurements at June 30, 2013</b>				
<b>Pension benefits – plan assets</b>				
		<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
	<b>Total</b>			
<i>Asset category:</i>				
Cash	\$ 48,673	48,673	—	—
U.S. Treasury obligations	1,528,742	—	1,528,742	—
U.S. government agencies	1,373,291	—	1,373,291	—
Municipal obligations	81,741	—	81,741	—
Mutual funds – fixed income	4,712,390	4,712,390	—	—
Corporate bonds	1,413,722	—	1,413,722	—
<b>Total</b>	<b>\$ 9,158,559</b>	<b>4,761,063</b>	<b>4,397,496</b>	<b>—</b>

**(b) Cash Flows**

The Museum expects to contribute \$53,420 to its supplemental retirement plan in fiscal year 2015.

The benefits expected to be paid from the pension plan in each year from 2015 to 2019 are \$709,000, \$716,000, \$723,000, and \$739,000, and \$728,000, respectively. The aggregate benefits expected to be paid in the five years from 2020 to 2023 are \$3,725,000. The expected benefits are based on the same assumptions used to measure the Museum’s benefit obligation at June 30 and include estimated future employee service.

The benefits expected to be paid for the supplemental retirement plan in each year from 2015 to 2019 is \$53,420. The aggregate benefits expected to be paid in the five years from 2020 to 2023 are \$267,100. The expected benefits are based on the same assumptions used to measure the Museum’s benefit obligation at June 30 and include estimated future employee service.

**(11) Endowment**

The Museum’s endowment consists of approximately 50 individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. At June 30, 2014 and 2013, the donor-restricted endowment fund amounted to \$71,965,098 and \$66,064,251, respectively. The Museum has no board-designated endowments at June 30, 2014 and 2013.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

**(a) *Interpretation of Relevant Law***

The Board of the Museum (Board) has interpreted Hawaii's Uniform Prudent Management of Institutional Funds Act (HUPMIFA), which was enacted by the state of Hawaii on July 1, 2009, 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. Unless otherwise stated in the gift instrument, 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 expended by the Museum in a manner consistent with the standard of prudence prescribed by HUPMIFA. In accordance with HUPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

For the years ended June 30, 2014 and 2013, the changes in donor-restricted endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2012	\$ (7,510,161)	1,194,416	69,000,785	62,685,040
Investment return:				
Dividends and interest, net of management fees and expenses	—	920,498	—	920,498
Net realized and unrealized gains	<u>458,463</u>	<u>1,778,608</u>	<u>1,248,133</u>	<u>3,485,204</u>
Total net investment return	458,463	2,699,106	1,248,133	4,405,702
Change in value of split-interest agreements	—	—	1,062,423	1,062,423
Gifts and bequests	—	—	185,461	185,461
Appropriation of endowment assets for expenditures	<u>—</u>	<u>(2,274,375)</u>	<u>—</u>	<u>(2,274,375)</u>
Endowment net assets, June 30, 2013	<u>(7,051,698)</u>	<u>1,619,147</u>	<u>71,496,802</u>	<u>66,064,251</u>
Investment return:				
Dividends and interest, net of management fees and expenses	—	1,652,806	—	1,652,806
Net realized and unrealized gains	<u>652,036</u>	<u>2,214,806</u>	<u>1,796,006</u>	<u>4,662,848</u>
Total net investment return	652,036	3,867,612	1,796,006	6,315,654
Change in value of split-interest agreements	—	—	1,853,627	1,853,627
Gifts and bequests	—	—	368,634	368,634
Appropriation of endowment assets for expenditures	<u>—</u>	<u>(2,637,068)</u>	<u>—</u>	<u>(2,637,068)</u>
Endowment net assets, June 30, 2014	<u>\$ (6,399,662)</u>	<u>2,849,691</u>	<u>75,515,069</u>	<u>71,965,098</u>

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets is as follows:

	<b>2014</b>	<b>2013</b>
Permanently restricted net assets:		
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by HUPMIFA	\$ 57,540,114	55,375,474
Beneficial interests in perpetual trusts	17,974,955	16,121,328
Total permanently restricted net assets	\$ 75,515,069	71,496,802
Temporarily restricted net assets:		
The portion of temporarily restricted net assets, excluding endowment funds, subject to purpose restrictions	\$ 11,405,371	11,645,369
The portion of the perpetual endowment funds subject to HUPMIFA with purpose restrictions	2,849,691	1,619,147
Total temporarily restricted net assets	\$ 14,255,062	13,264,516

**(b) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or HUPMIFA requires the Museum to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$6,399,662 and \$7,051,698 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred due to the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

**(c) Return Objectives and Risks Parameters**

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed certain published indexes while assuming a moderate level of investment risk.

**(d) 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.



**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

**(e) *Spending Policy***

The Museum's spending policy is to distribute 5% annually from the total endowment fund as calculated by a trailing 12-quarter moving average of the total fund as determined on June 30 of the fiscal year under consideration. Over the long term, the Museum expects the current spending policy to allow its endowment to be a balance between preserving the real (after inflation) purchasing power of the endowment principal with the need to fund program-related expenses.

**(12) Fair Value Measurements**

**(a) *Fair Value of Financial Instruments***

The fair value of financial instruments represents management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Museum's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Museum based on the best information available in the circumstances.

The carrying amounts of cash, accounts payable and accrued expenses, deferred revenue, and other liabilities approximate fair value because of the short maturity of these instruments.

The carrying amount of contributions receivable, net approximates fair value as the interest rates used to discount unconditional promises to give are commensurate with fair value rates at the periods then ended.

The carrying amount of contributed rent approximates fair value as the discount rate used to calculate present value is the risk-free rate as of the date of lease.

The fair value of investments in marketable securities is based primarily on quoted market prices. The fair value of other investments that do not have readily determinable fair values is generally based on quoted market prices of the underlying investments and information provided by the respective external investment managers at the most recent valuation date and adjusted for cash flows from the valuation date to fiscal year-end, if applicable. As described in note 1(o), the Museum utilized the net asset value per share for certain investments in alternative structures as a practical expedient for the estimation of the fair value of these investments.

The fair value of beneficial interest in perpetual trusts is based on quoted market prices of the underlying investments.

The carrying amount of debt approximates fair value as the interest rate is commensurate with interest rates currently offered by local lending institutions for loans with similar terms to companies with comparable credit risk.

The carrying amount of liability under split-interest agreements approximates fair value as discount rates used are generally commensurate with current published risk-free rates.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

**(b) Fair Value Hierarchy**

ASC Topic 820 establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Museum has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety at the measurement date.

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2014 and 2013:

	<b>June 30, 2014</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Long-term investments:				
Cash	\$ 374,447	374,447	—	—
Money market fund	2,314,762	—	2,314,762	—
U.S. Treasury obligations	2,123,715	—	2,123,715	—
U.S. government agency bonds	356,680	—	356,680	—
Municipal obligations	117,377	—	117,377	—
Corporate stocks	5,370,892	5,370,892	—	—
Preferred stocks	152,831	152,831	—	—
Corporate bonds	1,471,148	—	1,471,148	—

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

	<u>June 30, 2014</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Mutual funds (publically traded):				
Foreign equities	\$ 10,245,959	10,245,959	—	—
Fixed income	4,830,120	4,830,120	—	—
Domestic equities	8,908,562	8,908,562	—	—
Opportunistic and other	3,341,101	3,341,101	—	—
Total mutual funds	<u>27,325,742</u>	<u>27,325,742</u>	<u>—</u>	<u>—</u>
Hedge funds:				
Real assets	6,534,102	—	6,534,102	—
Domestic equities	5,007,638	—	5,007,638	—
Marketable alternative assets	71,043	—	—	71,043
Foreign equities	3,088,902	—	3,088,902	—
Emerging markets equities	1,810,389	—	1,810,389	—
Other	324,004	—	324,004	—
Total hedge funds	<u>16,836,078</u>	<u>—</u>	<u>16,765,035</u>	<u>71,043</u>
Fund of funds:				
Marketable alternative assets	8,261,846	—	8,261,846	—
Opportunistic and other	1,119,654	—	—	1,119,654
Total funds of funds	<u>9,381,500</u>	<u>—</u>	<u>8,261,846</u>	<u>1,119,654</u>
ETF and closed end fund	<u>110,324</u>	<u>—</u>	<u>110,324</u>	<u>—</u>
Total long-term investments	65,935,496	33,223,912	31,520,887	1,190,697
Beneficial interest in perpetual trusts	<u>17,974,955</u>	<u>—</u>	<u>17,974,955</u>	<u>—</u>
Total	<u>\$ 83,910,451</u>	<u>33,223,912</u>	<u>49,495,842</u>	<u>1,190,697</u>

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

	<b>June 30, 2013</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Long-term investments:				
Cash	\$ 4,602,895	4,602,895	—	—
Money market fund	2,227,042	—	2,227,042	—
U.S. Treasury obligations	2,304,828	—	2,304,828	—
U.S. government agency bonds	411,860	—	411,860	—
Municipal obligations	204,790	—	204,790	—
Corporate stocks	3,582,538	3,582,538	—	—
Preferred stocks	385,454	385,454	—	—
Corporate bonds	2,650,669	—	2,650,669	—
Mutual funds (publically traded):				
Foreign equities	7,979,800	7,979,800	—	—
Fixed income	3,869,678	3,869,678	—	—
Domestic equities	4,030,785	4,030,785	—	—
Opportunistic and other	1,029,082	1,029,082	—	—
Total mutual funds	<u>16,909,345</u>	<u>16,909,345</u>	<u>—</u>	<u>—</u>
Hedge funds:				
Real assets	6,605,034	—	6,605,034	—
Domestic equities	4,712,472	—	4,712,472	—
Marketable alternative assets	3,228,989	—	—	3,228,989
Foreign equities	2,436,843	—	2,436,843	—
Emerging markets equities	1,527,069	—	1,527,069	—
Other	393,459	—	393,459	—
Total hedge funds	<u>18,903,866</u>	<u>—</u>	<u>15,674,877</u>	<u>3,228,989</u>
Fund of funds:				
Marketable alternative assets	8,325,880	—	8,325,880	—
Opportunistic and other	1,624,173	—	—	1,624,173
Total funds of funds	<u>9,950,053</u>	<u>—</u>	<u>8,325,880</u>	<u>1,624,173</u>

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

	<u>June 30, 2013</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
ETF and closed end fund	\$ 123,965	—	123,965	—
Total long-term investments	62,257,305	25,480,232	31,923,911	4,853,162
Beneficial interest in perpetual trusts	16,121,328	—	16,121,328	—
Total	<u>\$ 78,378,633</u>	<u>25,480,232</u>	<u>48,045,239</u>	<u>4,853,162</u>

There were no liabilities measured at fair value on a recurring basis for the years ended June 30, 2014 and 2013.

The following table presents the Museum's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC Topic 820 for the year ended June 30, 2014.

	<u>Hedge funds</u>	<u>Fund of funds</u>	<u>Total</u>
Balance at June 30, 2012	\$ 2,854,975	1,257,380	4,112,355
Realized and unrealized gains	374,014	366,793	740,807
Balance at June 30, 2013	3,228,989	1,624,173	4,853,162
Realized and unrealized losses	(3,157,946)	(504,519)	(3,662,465)
Balance at June 30, 2014	<u>\$ 71,043</u>	<u>1,119,654</u>	<u>1,190,697</u>

The Museum's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2014 and 2013.

The following lists the unfunded commitments, redemption frequency, and notice period for investments for which management uses net asset value per share or its equivalent as a practical expedient to determining fair value as of June 30, 2014 and 2013:

Investments in hedge funds, fund of funds, and open-ended interval fund, except for the investment in the marketable alternative assets hedge fund and opportunistic fund of funds, are subject to redemption policies ranging from monthly to quarterly with redemption notice periods ranging from 1 to 65 days.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements

June 30, 2014 and 2013

Investment in the marketable alternative assets hedge fund is subject to a redemption period of 90 days. Investments in the opportunistic fund of funds are not redeemable until 2021.

There were no unfunded commitments related to any Level 3 investments.

**(13) Subsequent Events**

In May 2015, the Museum sold a property gifted by TCM to a third party. The property has a carrying value of approximately \$4,550,000 and is currently reported as an investment in real estate on the 2014 statement of financial position. Proceeds from sale of the property were used to pay off the remaining balance on two loans totaling \$3,824,791.

In March 2015, the Board of Trustees approved an amendment to the Honolulu Academy of Arts defined benefit pension plan. The amendment will effectively terminate the pension plan as of June 30, 2015.

**HONOLULU ACADEMY OF ARTS  
DBA HONOLULU MUSEUM OF ART**

Schedule of Functional Expenses

Year ended June 30, 2014

	Program services					Supporting services			Total program and supporting services	
	Education	Special exhibitions	Curatorial and conservation	Auxiliary	Art acquisitions	Total	Management and general	Development		Total
Salaries and wages	\$ 1,669,448	846,728	983,384	694,748	—	4,194,308	1,046,671	743,175	1,789,846	5,984,154
Employee benefits	316,356	208,547	211,533	164,665	—	901,101	287,119	144,596	431,715	1,332,816
Utilities	361,342	389,000	153,830	94,314	—	998,486	122,385	19,105	141,490	1,139,976
Professional and other services	315,430	64,871	15,741	41,804	—	437,846	186,710	101,999	288,709	726,555
Depreciation and amortization	286,882	375,581	154,627	75,676	—	892,766	103,711	19,539	123,250	1,016,016
Purchases for resale	16,112	200	—	512,976	—	529,288	—	—	—	529,288
Repairs and maintenance	135,943	139,625	68,404	54,024	—	397,996	82,663	28,942	111,605	509,601
Rental	244,225	9,326	3,798	2,187	—	259,536	26,567	6,698	33,265	292,801
Supplies	142,824	86,449	42,817	41,797	—	313,887	23,721	21,766	45,487	359,374
Publicity and printing	55,492	81,240	4,874	2,911	—	144,517	6,673	106,020	112,693	257,210
Insurance	32,618	70,135	81,655	14,790	—	199,198	2,144	3,291	5,435	204,633
Art acquisitions	—	—	—	—	201,545	201,545	—	—	—	201,545
Hospitality	72,097	43,027	24,159	1,118	—	140,401	24,035	42,657	66,692	207,093
Other	19,593	3,294	4,024	34,527	—	61,438	12,188	(2,093)	10,095	71,533
Postage and freight	15,077	106,491	36,223	3,340	—	161,131	5,318	17,349	22,667	183,798
Interest	—	—	—	—	—	—	63,488	—	63,488	63,488
Education and theatre	67,913	3,847	1,883	767	—	74,410	8,968	3,837	12,805	87,215
Retirement plans	319,349	70,845	175,438	130,997	—	696,629	418,135	159,080	577,215	1,273,844
Security	16,704	25,059	10,293	5,059	—	57,115	6,972	1,299	8,271	65,386
Exhibitions	—	21,475	—	—	—	21,475	—	—	—	21,475
Travel	19,869	22,720	5,731	936	—	49,256	11,823	11,190	23,013	72,269
Conservation	—	28,276	29,478	—	—	57,754	—	—	—	57,754
Books	6,286	495	322	83	—	7,186	120	266	386	7,572
	<u>\$ 4,113,560</u>	<u>2,597,231</u>	<u>2,008,214</u>	<u>1,876,719</u>	<u>201,545</u>	<u>10,797,269</u>	<u>2,439,411</u>	<u>1,428,716</u>	<u>3,868,127</u>	<u>14,665,396</u>

See accompanying independent auditors' report.