



FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
AUGUST 31, 2015 AND 2014**

ACADEMY ART MUSEUM, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

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Independent Auditor's Report

To the Board of Trustees
Academy Art Museum, Inc.
Easton, Maryland

We have audited the accompanying financial statements of Academy Art Museum, Inc. (a nonprofit organization) (the "Museum"), which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 auditor's 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 Academy Art Museum, Inc. as of August 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Schedule I – Revenues and Support on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Toal, Griffith + Ragula, LLC".

March 16, 2016

ACADEMY ART MUSEUM, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2015 AND 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 113,636	\$ 273,101
Pledges Receivable, Current Portion	79,667	66,634
Pledges Receivable from Trustees, Current Portion	15,000	32,500
Program Service Fees Receivable	3,668	359
Prepaid Expenses	14,652	11,866
Total Current Assets	226,623	384,460
PROPERTY AND EQUIPMENT		
Less Accumulated Depreciation	2,741,245	2,642,163
NONCURRENT ASSETS		
Long Term Investments	3,565,417	3,735,960
Pledges Receivable, Net of Current Portion	105,384	121,718
Pledges Receivable from Trustees, Net of Current Portion	2,500	94,533
Certificates of Deposit	29,802	111,616
Collections (Note 1)	-	-
Total Noncurrent Assets	3,703,103	4,063,827
Total Assets	\$ 6,670,971	\$ 7,090,450

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 34,034	\$ 43,974
Accrued Expenses	52	7,236
Deferred Revenue	138,267	119,208
Total Current Liabilities	172,353	170,418
Total Liabilities	172,353	170,418
NET ASSETS		
Unrestricted Undesignated	2,809,994	3,052,707
Unrestricted - Board Designated for Endowment	3,364,960	3,534,527
Total Unrestricted	6,174,954	6,587,234
Temporarily Restricted	125,814	134,948
Permanently Restricted	197,850	197,850
Total Net Assets	6,498,618	6,920,032
Total Liabilities and Net Assets	\$ 6,670,971	\$ 7,090,450

See independent auditor's report and accompanying notes to financial statements.

ACADEMY ART MUSEUM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Revenues and Support Earned	\$ 256,755	\$ -	\$ -	\$ 256,755
Contributions	1,045,298	69,727	-	1,115,025
Investment Loss	(25,285)	-	-	(25,285)
Loss on Disposal of Assets	(1,716)	-	-	(1,716)
Net Assets Released from Restrictions	<u>78,861</u>	<u>(78,861)</u>	-	<u>-</u>
 Total Revenues and Other Support	 <u>1,353,913</u>	 <u>(9,134)</u>	 <u>-</u>	 <u>1,344,779</u>
EXPENSES				
Program Expenses	860,184	-	-	860,184
General Administration	461,262	-	-	461,262
Fundraising	115,008	-	-	115,008
Public Relations	42,155	-	-	42,155
Special Events	<u>260,149</u>	<u>-</u>	<u>-</u>	<u>260,149</u>
 Total Expenses	 <u>1,738,758</u>	 <u>-</u>	 <u>-</u>	 <u>1,738,758</u>
 Change in Net Assets Before Changes Related to Collection Items Not Capitalized	 (384,845)	 (9,134)	 -	 (393,979)
 Collection Items Purchased	 <u>(27,435)</u>	 <u>-</u>	 <u>-</u>	 <u>(27,435)</u>
 Change in Net Assets	 (412,280)	 (9,134)	 -	 (421,414)
 Net Assets at Beginning of Year	 <u>6,587,234</u>	 <u>134,948</u>	 <u>197,850</u>	 <u>6,920,032</u>
 Net Assets at End of Year	 <u>\$ 6,174,954</u>	 <u>\$ 125,814</u>	 <u>\$ 197,850</u>	 <u>\$ 6,498,618</u>

See independent auditor's report and accompanying notes to financial statements.

ACADEMY ART MUSEUM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Revenues and Support Earned	\$ 281,267	\$ -	\$ -	\$ 281,267
Contributions	1,346,675	226,755	-	1,573,430
Investment Income	419,193	-	-	419,193
Loss on Disposal of Assets	(119,233)	-	-	(119,233)
Net Assets Released from Restrictions	<u>137,723</u>	<u>(137,723)</u>	-	<u>-</u>
 Total Revenues and Other Support	 <u>2,065,625</u>	 <u>89,032</u>	 <u>-</u>	 <u>2,154,657</u>
 EXPENSES				
Program Expenses	894,387	-	-	894,387
General Administration	327,396	-	-	327,396
Fundraising	213,386	-	-	213,386
Public Relations	35,490	-	-	35,490
Special Events	<u>179,925</u>	<u>-</u>	<u>-</u>	<u>179,925</u>
 Total Expenses	 <u>1,650,584</u>	 <u>-</u>	 <u>-</u>	 <u>1,650,584</u>
 Change in Net Assets Before Changes Related to Collection Items Not Capitalized	 415,041	 89,032	 -	 504,073
Collection Items Purchased	<u>(16,070)</u>	<u>-</u>	<u>-</u>	<u>(16,070)</u>
 Change in Net Assets	 398,971	 89,032	 -	 488,003
 Net Assets at Beginning of Year	 <u>6,188,263</u>	 <u>45,916</u>	 <u>197,850</u>	 <u>6,432,029</u>
 Net Assets at End of Year	 <u>\$ 6,587,234</u>	 <u>\$ 134,948</u>	 <u>\$ 197,850</u>	 <u>\$ 6,920,032</u>

See independent auditor's report and accompanying notes to financial statements.

ACADEMY ART MUSEUM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2015

	Program Services	General Administration	Fundraising	Public Relations	Special Events	Total Expenses
Advertising	\$ 30,634	\$ 3,880	\$ 130	\$ 14,024	\$ 8,177	\$ 56,845
Artwork Exhibit Expense	29,414	-	-	-	-	29,414
Bank Service Charges	268	13,941	-	-	133	14,342
Equipment Rental/Repair	193	8,138	105	-	-	8,436
Executive Search and Moving	-	62,138	-	-	-	62,138
Fees-Artist	20,829	-	-	-	500	21,329
Fees-Instructors	118,289	-	-	-	-	118,289
Fees-Professional	60,449	64,429	6,036	2,237	1,676	134,827
Investment Management Fees	-	19,723	-	-	-	19,723
Miscellaneous	3,478	1,856	478	200	1,600	7,612
Official Entertainment	13,005	1,153	14,680	-	-	28,838
Postage	452	3,409	1,391	2,465	24	7,741
Printing	8,898	3,160	6,166	23,131	2,047	43,402
Program Trips Expense	10,531	-	-	-	-	10,531
Shipping and Delivery Charges	10,208	-	-	-	-	10,208
Space Rental	-	4,440	-	-	-	4,440
Subscriptions and Professional Dues	4,994	23,989	1,390	39	-	30,412
Supplies and Materials	17,148	8,628	6,136	59	194,953	226,924
Travel	24,510	1,659	87	-	874	27,130
	<u>353,300</u>	<u>220,543</u>	<u>36,599</u>	<u>42,155</u>	<u>209,984</u>	<u>862,581</u>
Personnel Cost:						
Salaries	172,284	182,729	65,014	-	41,089	461,116
Payroll Taxes	13,206	13,985	4,984	-	3,150	35,325
Retirement	5,738	6,076	2,165	-	1,368	15,347
Benefits	10,998	11,647	4,150	-	2,623	29,418
Total Personnel Cost	<u>202,226</u>	<u>214,437</u>	<u>76,313</u>	<u>-</u>	<u>48,230</u>	<u>541,206</u>
Facility Expenses:						
Utilities	58,874	4,494	-	-	829	64,197
Maintenance and Supplies	36,481	2,727	-	-	503	39,711
Personnel Expense	42,812	3,268	-	-	603	46,683
Insurance	27,843	3,186	-	-	-	31,029
Service Agreements	4,504	966	965	-	-	6,435
Telephone and Internet	4,524	1,885	1,131	-	-	7,540
Total Facility Expenses	<u>175,038</u>	<u>16,526</u>	<u>2,096</u>	<u>-</u>	<u>1,935</u>	<u>195,595</u>
Depreciation	<u>129,620</u>	<u>9,756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,376</u>
Total Functional Expenses	<u>\$ 860,184</u>	<u>\$ 461,262</u>	<u>\$ 115,008</u>	<u>\$ 42,155</u>	<u>\$ 260,149</u>	<u>\$ 1,738,758</u>

See independent auditor's report and accompanying notes to financial statements.

ACADEMY ART MUSEUM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2014

	Program Services	General Administration	Fundraising	Public Relations	Special Events	Total Expenses
Advertising	\$ 26,438	\$ 4,490	\$ 2,655	\$ 7,658	\$ 6,990	\$ 48,231
Artwork Exhibit Expense	17,129	1,012	779	-	-	18,920
Bank Service Charges	370	17,166	84	-	42	17,662
Equipment Rental/Repair	600	7,351	-	-	5,315	13,266
Fees-Artist	22,419	-	-	-	12,350	34,769
Fees-Instructors	154,355	-	-	-	363	154,718
Fees-Professional	53,985	76,723	67,581	820	4,579	203,688
Investment Management Fees	-	12,656	-	-	-	12,656
Miscellaneous	4,436	174	222	75	3,555	8,462
Official Entertainment	4,386	1,098	11,912	30	14,377	31,803
Postage	359	3,401	1,262	2,338	2,067	9,427
Printing	6,989	2,592	8,143	23,345	5,661	46,730
Program Trips Expense	13,846	-	-	-	15,941	29,787
Property Expense - 116 Harrison	-	118	-	-	-	118
Shipping and Delivery Charges	1,955	-	-	-	-	1,955
Space Rental	-	458	-	-	100	558
Subscriptions and Professional Dues	1,200	8,398	5,521	-	-	15,119
Supplies and Materials	14,567	13,397	7,492	420	59,364	95,240
Travel	20,619	1,447	134	338	2,805	25,343
	<u>343,653</u>	<u>150,481</u>	<u>105,785</u>	<u>35,024</u>	<u>133,509</u>	<u>768,452</u>
Personnel Cost:						
Salaries	215,543	123,956	85,134	384	37,142	462,159
Payroll Taxes	14,996	8,624	5,923	27	2,584	32,154
Retirement	10,034	5,770	3,963	18	1,729	21,514
Benefits	21,089	12,128	8,330	37	3,634	45,218
Total Personnel Cost	<u>261,662</u>	<u>150,478</u>	<u>103,350</u>	<u>466</u>	<u>45,089</u>	<u>561,045</u>
Facility Expenses:						
Utilities	52,970	4,043	746	-	-	57,759
Maintenance and Supplies	21,656	1,649	95	-	760	24,160
Personnel Expense	40,286	3,075	-	-	567	43,928
Insurance	26,042	2,980	-	-	-	29,022
Service Agreements	7,776	1,666	1,666	-	-	11,108
Telephone and Internet	6,980	2,908	1,744	-	-	11,632
Total Facility Expenses	<u>155,710</u>	<u>16,321</u>	<u>4,251</u>	<u>-</u>	<u>1,327</u>	<u>177,609</u>
Depreciation	<u>133,362</u>	<u>10,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,478</u>
Total Functional Expenses	<u>\$ 894,387</u>	<u>\$ 327,396</u>	<u>\$ 213,386</u>	<u>\$ 35,490</u>	<u>\$ 179,925</u>	<u>\$ 1,650,584</u>

See independent auditor's report and accompanying notes to financial statements.

ACADEMY ART MUSEUM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets Before Changes Related to Collection Items Not Capitalized	\$ (393,739)	\$ 504,073
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	139,376	143,478
Realized (Gain) Loss on Sale of Investments	46,671	(410,861)
Unrealized Loss on Investments	120,492	126,090
(Gain) Loss on Disposal of Fixed Assets	1,716	119,233
(Increase) Decrease in:		
Pledges and Grants Receivable	112,834	(119,716)
Program Service Fees Receivable	(3,309)	14,641
Prepaid Expenses	(2,786)	(6,121)
Increase (Decrease) in:		
Accounts Payable	(9,940)	28,953
Accrued Expenses	(7,184)	(2,927)
Deferred Revenue	19,059	(88,138)
Net Cash Provided by Operating Activities	<u>23,190</u>	<u>308,705</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Equipment	(240,174)	(78,767)
Proceeds from Sale of Property	-	123,807
Purchase of Collection Items Not Capitalized	(27,675)	(16,070)
Proceeds from Redemption of Certificates of Deposit	81,814	-
Purchase of Certificates of Deposit	-	(39,148)
Proceeds from Sale of Long Term Investments	848,037	3,755,044
Purchase of Investments	<u>(844,657)</u>	<u>(3,951,719)</u>
Net Cash Used by Investing Activities	(182,655)	(206,853)
CASH FLOWS FROM FINANCING ACTIVITIES		
	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(159,465)	101,852
Cash and Cash Equivalents, Beginning of Year	<u>273,101</u>	<u>171,249</u>
Cash and Cash Equivalents, End of Year	<u>\$ 113,636</u>	<u>\$ 273,101</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest Paid	\$ <u>-</u>	\$ <u>-</u>
Income Taxes Paid	\$ <u>-</u>	\$ <u>-</u>

See independent auditor's report and accompanying notes to financial statements.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Academy Art Museum, Inc. (the "Museum") is a tax-exempt, nonprofit organization established in 1958 to promote the knowledge, practice, and appreciation of the arts on the Eastern Shore of Maryland. The Museum is a regional arts center serving the greater Eastern Shore community. The Museum offers a broad spectrum of programs and arts related services including the museum galleries used to display pieces of its permanent collection as well as works of art on loan from other organizations. The Museum has a library and offers various visual and performing arts presentations, performances, and lessons open to children and adults in the Eastern Shore community.

Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the financial statements reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Museum's financial reporting classifies resources, for accounting and reporting purposes, into three net asset categories according to externally (donor) imposed restrictions. The Museum records unconditional promises to give (pledges) as receivables and revenues and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows.

- Permanently Restricted - the portion of the net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Museum pursuant to those stipulations.
- Temporarily Restricted - the portion of the net assets resulting from contributions or other inflows of assets whose use by the Museum is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Museum pursuant to those stipulations.
- Unrestricted - the portion of the net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of 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 as of the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Certificates of Deposit

Cash and cash equivalents include demand deposits and certificates of deposit with an original maturity of three months or less (when purchased). Interest income on certificates of deposit is recorded as income when earned.

Revenue and Support

Annual member dues are recognized as revenue when such income is received. Conditional promises are recognized as revenue when the donor's conditions are substantially met.

Unconditional promises to give are recorded in the period pledged. Amounts expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of the estimated future cash flows discounted at the risk-free interest rate at the date of the contribution. The Museum does not generally experience collectability issues regarding its contributions. Management has provided no allowance for uncollectible pledges for the years ended August 31, 2015 and 2014.

Grants and other contributions of cash and other assets are reported as temporarily or permanently restricted support if they are received with donor stipulations limiting the use of the donated assets. When 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 and changes in net assets as net assets released from restrictions. Grants are recorded as revenue when received or when conditions of the grant agreement are met. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and an increase in unrestricted net assets.

Marketable securities received as contributions are usually sold, with the proceeds allocated as specified by the donor or designated by the Board of Trustees. Contributions of marketable securities totaled \$97,670 and \$353,229 for the years ended August 31, 2015 and 2014, respectively.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Support (Continued)

Restrictions on gifts of fixed assets or cash for the purpose of fixed assets expire when the asset is placed in service.

Donated materials and property are reflected as contributions in the financial statements at their estimated values on the date of receipt when there is a measurable and objective basis for determining the value. No donated materials, property, or services that could be valued were received during the fiscal year ended August 31, 2014. During the fiscal year ended August 31, 2015, the Museum received donations of materials, property, and service with an estimated fair value of \$42,027.

Pledges and Grants Receivable

Support receivables consist of commitments for future contributions to the Museum's programs or operations. Grants receivable are expected to be collected within the year. Unconditional promises to give are recorded as receivables and revenue when received. The Museum distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

Contributed Services

The value of volunteer time and certain donated services is not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services. However, approximately 125 volunteers donate over 11,750 hours of their time annually on behalf of the Museum's efforts.

Permanent Collection

The Museum's permanent collection consists of works of art held for educational, exhibition, and research purposes. Pieces in the collection are cataloged, preserved, and cared for; activities to inventory and assess their condition are performed regularly. The collection is subject to a policy that requires proceeds from the sale of deaccessioned items to be used solely for the acquisition of other objects for the collection.

During the years ended August 31, 2015 and 2014, the Museum added 53 and 81 works of art to its collection, respectively.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Permanent Collection (Continued)

In conformity with the practice followed by many museums, the collection, which has been acquired through contributions and purchases since the Museum's inception, is not recognized as an asset on the statements of financial position. Purchases of artwork for the permanent collection are recorded as an unrestricted expense in the year in which the items are acquired or as a release of temporarily or permanently restricted net assets if the assets to purchase the items are so restricted by donors. Contributed permanent collection items are not reflected in the financial statements. Proceeds from sales and insurance recoveries are reflected as income in the appropriate net asset classes.

Property and Equipment

Properties are carried at cost if purchased, and at fair market or appraised value if donated. The Museum's policy is to charge all additions greater than \$1,000 to the asset account but to charge the cost of repairs, maintenance and minor betterments to operations in the year in which the cost is incurred. Asset and accumulated depreciation accounts are relieved upon disposition or retirement of properties. Gains and losses from the sale or disposal of property are included in income.

Depreciation is calculated using the straight line method over the following estimated useful lives of the assets:

Buildings and Improvements	10 to 40 years
Equipment and Furniture	5 to 10 years

Fair Value Measurements

FASB ASC 820-10-20 establishes a three level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

Investments

The Museum’s investments include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. A significant portion of the Museum’s investments are managed by professional investment management firms, but the Museum also owns stock outside of its endowment investment accounts. Investments in debt and equity securities with readily determinable fair values are carried at fair value based on quoted prices in active markets (all level 1 measurements).

The Museum established a fund with the Mid-Shore Community Foundation, Inc. (“MSCF”) to encourage additional contributions to the Museum. According to the agreement, the principal of the fund, including third party contributions directly to the fund, cannot be distributed unless certain extraordinary circumstances are encountered and then only at the discretion of the board of directors of MSCF. The net income of the fund is subject to annual distribution to the Museum at the discretion of the Board of Directors of MSCF. Distributions from the fund will be recorded as contribution revenue in the period received.

Endowment

The Museum’s endowment consists of funds functioning as endowment through donor-restricted funds and funds designated by the Board of Trustees to function as endowments. The earnings of the Museum’s endowment funds support education and art programs and the mission of the Museum. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment (Continued)

The Board of Trustees of the Museum has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic condition, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other reasons of the Museum, and (7) the Museum’s investment policies.

Endowment Investment Return Objectives, Risk Parameters and Strategies

The Museum has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets; such policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix of securities, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution up to 5% (historically 3%-4%), while maintaining the corpus. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Spending Policy

The Museum has a policy of appropriating for distribution each year up to 5% of its endowment fund's trailing three year average of the fund's total asset value at the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered the long term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effect of inflation.

Deferred Revenue

The Museum receives advance registrations and deposits for events and programs held subsequent to the fiscal year end. These revenues are recorded as a liability of the Museum until the fundraising event or the program occurs.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on the statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the categories presented.

Risk Management

The Museum carries commercial general, property, and liability insurance coverage as well as workers' compensation and employee bonding insurance. Insurance needs and coverage are reviewed periodically.

Advertising

All advertising costs are expensed as incurred.

Income Taxes

The Museum is exempt from income taxes under Internal Revenue Code 501(c)(3). In addition, the Museum has been classified as an organization that is not a private foundation under Section 509(a)(1). A portion of income from certain activities not directly related to the Museum's tax exempt purpose may be subject to taxation as unrelated business income. For the years ended August 31, 2015 and 2014 no income taxes were due. However, income from certain activities not directly related to the Museum's tax-exempt purpose may be subject to taxation as unrelated business income.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Museum believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Museum's informational return is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Reclassifications

Certain reclassifications have been made to the 2014 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Concentration of Credit Risk

The Museum invests funds in common stocks and professionally managed mutual funds that contain various types of marketable securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the financial statements.

Subsequent Events

The Museum evaluated subsequent events through the date that the financial statements were available to be issued. The Museum is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to March 16, 2016 that would have a material impact on the financial statements.

NOTE 2 - CREDIT RISK

Demand deposits and certificates of deposit held at commercial banking institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The museum's cash balances on deposit at August 31, 2015 were not in excess of balances insured by the FDIC.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 3 - PLEDGES AND GRANTS RECEIVABLE

Unconditional promises to give at fair value on August 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 94,667	\$ 99,134
Receivable in one to five years	<u>113,958</u>	<u>225,816</u>
Total unconditional promises to give	208,625	324,950
Discount to net present value	<u>(6,074)</u>	<u>(9,565)</u>
Net contributions receivable	\$ <u>202,551</u>	\$ <u>315,385</u>

Unconditional promises to give with due dates extending beyond one year are discounted using Treasury rates for similar term investments. The applicable rates at August 31, 2015 ranged from 1.04% to 1.75%.

At August 31, 2015 and 2014, approximately 9% and 51%, respectively, of outstanding promises to give were due from members of the Board of Trustees.

Specific pledges are written off when management deems collection is not likely. There were no pledges written off as uncollectible during the years ended August 31, 2015 and 2014.

NOTE 4 - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment, at cost:

	<u>2015</u>	<u>2014</u>
Construction in Progress	\$ 182,063	\$ ---
Land and Improvements	127,645	127,645
Building and Improvements	4,272,626	4,270,564
Equipment and Furniture	<u>529,800</u>	<u>482,855</u>
Total Property and Equipment	5,112,134	4,881,064
Less: Accumulated Depreciation	<u>(2,370,889)</u>	<u>(2,238,901)</u>
Net Property and Equipment	\$ <u>2,741,245</u>	\$ <u>2,642,163</u>

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 5 - INVESTMENTS

No income distribution was made from the Mid-Shore Community Foundation, Inc. ("MSCF") fund during the years ended August 31, 2015 and 2014. The fair market value of the MSCF fund at August 31, 2015 and 2014, reported below, includes the third party contributions made directly to the fund. This investment is carried at fair value of the underlying investments as determined by MSCF.

All of the Museum's investments are governed by the Museum's investment policy.

Long term investments are comprised of the following:

<u>2015</u>	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
Money Market Funds	\$ 101,239	\$ ---	\$ ---	\$ 101,239
Domestic Common Stocks	897,054	---	---	897,054
Foreign Common Stocks	109,552	---	---	109,552
Mutual Funds	1,352,581	---	---	1,352,581
Bond Funds	1,060,066	---	---	1,060,066
MSCF Investment	<u>---</u>	<u>44,925</u>	<u>---</u>	<u>44,925</u>
Total Investments	\$ <u>3,520,492</u>	\$ <u>44,925</u>	\$ <u>---</u>	\$ <u>3,565,417</u>

<u>2014</u>	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
Money Market Funds	\$ 156,151	\$ ---	\$ ---	\$ 156,151
Common Stocks	1,054,079	---	---	1,054,079
Mutual Funds	1,436,126	---	---	1,436,126
US Treasury Notes	---	1,042,909	---	1,042,909
MSCF Investment	<u>---</u>	<u>46,695</u>	<u>---</u>	<u>46,695</u>
Total Investments	\$ <u>2,646,356</u>	\$ <u>1,089,604</u>	\$ <u>---</u>	\$ <u>3,735,960</u>

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 5 - INVESTMENTS (CONTINUED)

There were no investments deemed by management to be classified as level 3 investments at August 31, 2015 and 2014, respectively.

Investment activity was comprised of the following for the years ended August 31:

<u>Classification</u>	<u>2015</u>	<u>2014</u>
Dividend and Interest Income	\$ 141,878	\$ 134,422
Realized Gains	(46,671)	410,861
Unrealized Gains (Loss)	<u>(120,492)</u>	<u>(126,090)</u>
Total Investment Income	\$ <u>(25,285)</u>	\$ <u>419,193</u>

NOTE 6 - LINE OF CREDIT

The Museum has available a \$400,000 unsecured line of credit with Talbot Bank to be drawn upon as needed through September 11, 2015. Interest on the outstanding balance accrues at the lender's determined prime rate. The line of credit had no outstanding balance at August 31, 2015 and 2014. On September 11, 2015, the line of credit was renewed at a reduced limit of \$250,000, available through March 2017.

NOTE 7 - EMPLOYEE RETIREMENT PLANS

The Museum has a Simplified Employee Pension Plan ("SEP"). This plan covers all full-time employees. The Board determines the amount of the annual contribution to this plan based on the Museum's financial position at the end of each fiscal year. Retirement expense was \$15,347 and \$21,514, respectively, at August 31, 2015 and 2014.

The Museum has a 403(b)(7) retirement plan. All salaried employees are eligible to participate in this deferred compensation plan through a salary reduction plan. The Museum does not contribute to this plan.

NOTE 8 - POST-RETIREMENT BENEFITS

Other than its retirement plans, the Museum does not provide post-retirement benefits. By paying 100% of the premiums, retirees have the opportunity to continue group health insurance coverage for twelve months. For continued coverage after that time, the retiree may convert to an individual policy.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 9 - BOARD DESIGNATED RESERVES

The Board of Trustees has designated certain unrestricted net assets as a maintenance reserve and a cash reserve. At August 31, 2014, the balance in these reserves was approximately \$43,000. During the year ended August 31, 2015, the Board utilized these funds for significant exterior maintenance projects, therefore, there is no balance in the reserve at August 31, 2015. These assets were invested in certificates of deposit and were included in certificates of deposit on the statements of financial position.

NOTE 10 - ENDOWMENT

Endowment net asset composition by type of fund is as follows:

<u>2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Net Assets</u>
Donor-Restricted Endowment Funds	\$ ---	\$ ---	\$ 197,850	\$ 197,850
Board-Designated Endowment Funds	<u>3,364,960</u>	<u>---</u>	<u>---</u>	<u>3,364,960</u>
Total	\$ <u>3,364,960</u>	\$ <u>---</u>	\$ <u>197,850</u>	\$ <u>3,562,810</u>
	<u>2015</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Net Assets</u>
Endowment Net Assets, Beginning of Year	\$ 3,534,527	\$ 1,383	\$ 197,850	\$ 3,733,760
Additional Board Designation of Funds	93,350	---	---	93,350
Investment Income	95,207	---	---	95,207
Net Appreciation (Depreciation)	(120,492)	---	---	(120,492)
Amounts Appropriated For Expenditure	(239,015)	---	---	(239,015)
Release from Restrictions	<u>1,383</u>	<u>(1,383)</u>	<u>---</u>	<u>---</u>
Endowment Net Assets, End of Year	\$ <u>3,364,960</u>	\$ <u>---</u>	\$ <u>197,850</u>	\$ <u>3,562,810</u>

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 10 - ENDOWMENT (CONTINUED)

<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Net Assets</u>
Donor-Restricted Endowment Funds	\$ ---	\$ 1,383	\$ 197,850	\$ 199,233
Board-Designated Endowment Funds	<u>3,534,527</u>	<u>---</u>	<u>---</u>	<u>3,534,527</u>
Total	\$ <u>3,534,527</u>	\$ <u>1,383</u>	\$ <u>197,850</u>	\$ <u>3,733,760</u>
<u>2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Net Assets</u>
Endowment Net Assets, Beginning of Year	\$ 3,050,130	\$ 4,333	\$ 197,850	\$ 3,252,313
Additional Board Designation of Funds	213,653	---	---	213,653
Contributions	---	1,450	---	1,450
Investment Income	545,283	---	---	545,283
Net Appreciation (Depreciation)	(126,090)	---	---	(126,090)
Amounts Appropriated For Expenditure	(152,849)	---	---	(152,849)
Release from Restrictions	<u>4,400</u>	<u>(4,400)</u>	<u>---</u>	<u>---</u>
Endowment Net Assets, End of Year	\$ <u>3,534,527</u>	\$ <u>1,383</u>	\$ <u>197,850</u>	\$ <u>3,733,760</u>

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions received to fund certain donor stipulated purposes as follows:

	<u>2015</u>	<u>2014</u>
Restricted for Awards	\$ ---	\$ 1,383
Piano Retuning and Restoration	2,742	4,287
Education Coordinator	---	17,653
Art Acquisitions	91,072	111,625
Time Restriction on Donated Asset	<u>32,000</u>	<u>---</u>
Total Temporarily Restricted Net Assets	\$ <u>125,814</u>	\$ <u>134,948</u>

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

NOTE 12 - INTENTIONS TO GIVE

The Museum has received indications of revocable gifts as described below:

1. The Museum was named as a revocable beneficiary of a charitable remainder trust.
2. The Museum has been named the owner and beneficiary of several term life insurance policies on individual supporters.
3. The Museum has been named as a beneficiary in several supporters' wills.

Due to the uncertain nature of these intentions, the Museum has not recognized an asset or contribution revenue for these gifts. The estimated total intentions to give were approximately \$1,385,000 and \$345,000 at August 31, 2015 and 2014, respectively.

NOTE 13 - COMMITMENTS

The Museum signed various construction contracts during 2015 for the repair and maintenance of the exterior of the Museum building. One such contract calls for total cost not to exceed \$95,000. At August 31, 2015, the total remaining commitment related to this contract was approximately \$32,000. All other construction contracts signed prior to August 31, 2015 call for the Museum to pay hourly rates for service provided. Additionally, the Museum signed a contract in August 2015 with a fundraising consultant to assist in the upcoming capital campaign. The total commitment under this contract is \$165,000, which is due in five monthly installments beginning in September 2015.

SUPPLEMENTARY INFORMATION

ACADEMY ART MUSEUM, INC.
SCHEDULE I - REVENUES AND SUPPORT
FOR THE YEAR ENDED AUGUST 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
REVENUES AND SUPPORT EARNED					
Admissions	\$ 57,604	\$ -	\$ -	\$ 57,604	\$ 69,319
Sales	19,396	-	-	19,396	23,627
Rentals	7,887	-	-	7,887	14,034
Tuition	<u>171,868</u>	<u>-</u>	<u>-</u>	<u>171,868</u>	<u>174,287</u>
Total Revenues and Support Earned	256,755	-	-	256,755	281,267
CONTRIBUTED SUPPORT					
Individuals	480,256	60,425	-	540,681	1,065,981
Corporations	150	5,802	-	5,952	21,218
Foundations	11,231	3,500	-	14,731	66,706
Civic and Other Organizations	2,050	-	-	2,050	1,367
Government Grants - State and County	109,344	-	-	109,344	106,649
Special Events	442,267	-	-	442,267	311,509
Assets Released from Restrictions	<u>78,861</u>	<u>(78,861)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Contributed Support	1,124,159	(9,134)	-	1,115,025	1,573,430
INVESTMENT INCOME					
Interest and Dividends	141,878	-	-	141,878	134,422
Realized Gain (Loss) on Sale of Investments	(46,671)	-	-	(46,671)	410,861
Unrealized Gain (Loss) on Investments	<u>(120,492)</u>	<u>-</u>	<u>-</u>	<u>(120,492)</u>	<u>(126,090)</u>
Total Investment Income	(25,285)	-	-	(25,285)	419,193
LOSS ON DISPOSAL OF ASSETS					
	<u>(1,716)</u>	<u>-</u>	<u>-</u>	<u>(1,716)</u>	<u>(119,233)</u>
Total Revenues and Support	<u>\$ 1,353,913</u>	<u>\$ (9,134)</u>	<u>\$ -</u>	<u>\$ 1,344,779</u>	<u>2,154,657</u>