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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees

ACADEMY ART MUSEUM, INC.

We have audited the accompanying statement of financial position of Academy Art Museum, Inc. (the "Academy") as of August 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Academy's 2009 financial statements and, in our report dated January 25, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Academy Art Museum, Inc. as of August 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

Easton, Maryland

March 25, 2011

ACADEMY ART MUSEUM, INC.
STATEMENTS OF FINANCIAL POSITION

August 31, 2010 and 2009

	2010	2009
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 114,816	\$ 150,204
Pledges receivable	10,450	27,291
Grants receivable	63,458	89,086
Short-term investments	70,626	70,455
Prepaid expenses	6,426	13,028
TOTAL CURRENT ASSETS	265,776	350,064
COLLECTIONS (note 1)	-	-
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	3,282,358	3,394,748
NONCURRENT ASSETS		
Pledges receivable, net	-	21,854
Long-term investments	2,508,166	2,429,364
TOTAL NONCURRENT ASSETS	2,508,166	2,451,218
TOTAL ASSETS	\$ 6,056,300	\$ 6,196,030
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 29,681	\$ 10,437
Accrued expenses	191	7,426
Deferred revenue	121,363	167,727
TOTAL CURRENT LIABILITIES	151,235	185,590
<u>NET ASSETS</u>		
UNRESTRICTED		
Board designated	2,305,618	2,228,764
Other	3,375,030	3,581,076
TEMPORARILY RESTRICTED		
PERMANENTLY RESTRICTED	26,567	2,750
TOTAL NET ASSETS	197,850	197,850
TOTAL NET ASSETS	5,905,065	6,010,440
TOTAL LIABILITIES AND NET ASSETS	\$ 6,056,300	\$ 6,196,030

See Notes to Financial Statements

**ACADEMY ART MUSEUM, INC.
STATEMENTS OF ACTIVITIES**

Years Ended August 31, 2010 and 2009

	2010			2009
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES AND SUPPORT				
Revenues and support earned	\$ 266,030	\$ -	\$ -	\$ 266,030
Contributed support	649,119	78,287	-	727,406
Investments	197,622	-	-	197,622
Net assets released from restriction	54,470	(54,470)	-	-
TOTAL REVENUES AND SUPPORT	1,167,241	23,817	-	1,191,058
EXPENSES				
Program - arts programs, including depreciation (\$132,755, 2010; \$132,420, 2009)	774,037	-	-	774,037
General administration, including depreciation (\$9,992, 2010; \$9,967, 2009)	326,765	-	-	326,765
Fundraising	65,225	-	-	65,225
Public relations	29,106	-	-	29,106
Special events	101,300	-	-	101,300
TOTAL EXPENSES	1,296,433	-	-	1,296,433
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED	(129,192)	23,817	-	(105,375)
COLLECTION ITEMS PURCHASED CHANGE IN NET ASSETS	(129,192)	23,817	-	(105,375)
NET ASSETS, BEGINNING OF YEAR	5,809,840	2,750	197,850	6,010,440
TOTAL NET ASSETS	\$ 5,680,648	\$ 26,567	\$ 197,850	\$ 5,905,065
				\$ 6,010,440

See Notes to Financial Statements

ACADEMY ART MUSEUM, INC.
STATEMENTS OF CASH FLOWS
Years Ended August 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets before changes related to collection items not capitalized	\$ (105,375)	\$ (395,032)
Adjustments to reconcile decrease in net assets before changes related to collection items to net cash flows from operating activities:		
Depreciation	142,747	142,387
Stock contributions	(57,041)	(36,608)
Realized loss on sale of investments	66,796	329,445
Unrealized loss (gain) on investments	(217,180)	32,999
Decrease (increase) in operating assets:		
Promises and grants receivable	64,323	(40,650)
Prepaid expenses	6,602	8,994
Increase (decrease) in operating liabilities:		
Accounts payable	19,244	(14,603)
Accrued expenses	(7,235)	3,995
Deferred revenue	(46,364)	21,423
NET CASH FLOWS FROM OPERATING ACTIVITIES	(133,483)	52,350
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in equipment	(30,357)	-
Purchase of collection items not capitalized	-	(19,000)
Proceeds from sale of long-term investments	691,755	1,089,682
Purchase of short-term investments	(171)	(675)
Purchase of long-term investments	(563,132)	(1,144,804)
NET CASH FLOWS FROM INVESTING ACTIVITIES	98,095	(74,797)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(35,388)	(22,447)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	150,204	172,651
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 114,816	\$ 150,204

See Notes to Financial Statements

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of activities - Academy Art Museum, Inc. (the "Academy") is a tax-exempt, non-profit organization established in 1958 to promote the knowledge, practice, and appreciation of the arts on the Eastern Shore of Maryland. The Academy is a regional arts center serving the greater Eastern Shore community. The Academy 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 Academy 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 presentation - The financial statements of the Academy have been prepared on the accrual basis of accounting.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 958-205. Under FASB ASC 958-205, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

A description of the three categories of net assets is as follows:

Unrestricted net assets are free from donor-imposed restrictions and are presently available for use by the Academy at the discretion of the Board of Trustees.

Temporarily restricted net assets are those whose use by the Academy has been limited by donors to a specific time period or purpose.

Permanently restricted net assets are funds that have been restricted by donors to be maintained by the Academy in perpetuity. Only the income is available for program operations in accordance with donor restrictions.

Even though all funds are combined on these financial statements, the Academy maintains its internal accounts and segregates its internal financial statements by funds in order to reflect the different restrictions on, or different nature of, the various resources available for its use.

Reclassification - Certain 2009 amounts have been reclassified to conform to the 2010 financial statement presentation.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Prior year summarized information - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Academy's financial statements for the year ended August 31, 2009, from which the summarized information was derived.

Revenues 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 Academy does not generally experience collectability issues regarding its contributions. Management has provided no allowance for uncollectible pledges for the years ended August 31, 2010 and 2009.

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 a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. 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 to the appropriate fund as specified by the donor or designated by the Board of Trustees. Contributions of marketable securities totaled \$57,041 and \$36,608 for the years ended August 31, 2010 and 2009, respectively.

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, 2010 and 2009.

Cash and cash equivalents - 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.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies – continued**

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, annually, approximately 200 volunteers donate over 11,500 hours of their time on behalf of the Academy's efforts.

Property and equipment - Properties are carried at cost if purchased, and at fair market or appraised value if donated. The Academy's policy is to charge all additions 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

Permanent collection - The Academy'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, 2010 and 2009, the Academy added 43 and 96 works of art to its collection, respectively.

In conformity with the practice followed by many museums, the collection, which has been acquired through contributions and purchases since the Academy's inception, is not recognized as an asset on the statement 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.

Functional allocation of expenses - The costs of providing various programs and other activities have been summarized on Schedule II – Functional Expenses in the supplementary information. Accordingly, certain costs have been allocated among the categories presented.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Advertising – Advertising costs are expensed as incurred. Advertising expense for the years ended August 31, 2010 and 2009 was \$20,198 and \$22,100, respectively.

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

Concentration of 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 at August 31, 2010 and 2009. At August 31, 2010 and 2009, the Academy's balances were fully insured by FDIC coverage.

The Academy 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.

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 within the hierarchy considers the markets in which the 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.

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.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Income taxes – The Academy is a Maryland not-for-profit corporation exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Academy's tax-exempt purpose may be subject to taxation as unrelated business income.

The Academy has adopted "Accounting for Uncertainty in Income Taxes" in accordance with Topic 740 of FASB ASC. Topic 740 prescribes a comprehensive model of how an organization should recognize, measure, present and disclose in its financial statements uncertain tax positions that the organization has taken or expects to take on a tax return. It states that a tax benefit from an uncertain tax position may be recognized if it is "more likely than not" that the position is sustainable, based upon its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that has greater than a 50% likelihood of being realized upon the ultimate settlement with a taxing authority having full knowledge of all relevant information. Topic 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Academy 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.

Board designated reserves – The Board of Trustees has designated certain unrestricted net assets as a maintenance reserve and a cash reserve. At August 31, 2010 and 2009, the balance in these reserves was approximately \$41,000. These assets are invested in certificates of deposit and are included in short-term investments in the statement of financial position.

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. Actual results could differ from those estimates.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(2) Pledges and grants receivable

Support receivables consist of commitments for future contributions to the Academy's programs or operations. At August 31, 2010 and 2009, the Academy had the following pledges and grants receivable which are due as follows:

	2010	2009
Less than one year	\$ 73,908	\$ 116,377
One to five years	-	22,500
Present value discount	-	(646)
Pledges receivable - noncurrent portion, net	-	21,854
Total pledges and grants receivable, net	\$ 73,908	\$ 138,231

Pledges receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The applicable rate at August 31, 2009 was 0.97%. There were no long-term pledges receivable at August 31, 2010.

Specific pledges are written-off when collection is not deemed likely. During the year ended August 31, 2009, the Academy deemed outstanding pledges of \$1,000 to be uncollectible. There were no pledges written-off as uncollectible during the year ended August 31, 2010.

(3) Properties

Following is a summary of properties, at cost:

	2010	2009
Land and improvements	\$ 286,653	\$ 286,653
Buildings and improvements	4,242,970	4,222,539
Equipment and furniture	458,103	448,176
Total cost	4,987,726	4,957,368
Less: accumulated depreciation	(1,705,368)	(1,562,620)
Net property and equipment	\$ 3,282,358	\$ 3,394,748

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(4) Investments

The Academy's investments include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. The Academy's investments are managed by professional investment management firms and are governed by the Academy's investment policy.

During fiscal year 2003, the Academy established a fund within the Mid-Shore Community Foundation, Inc. (MSCF) to encourage additional contributions to the Academy. 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 Academy at the discretion of the Board of Directors of MSCF. Distributions from the fund will be recorded as contribution revenue in the period received. No income distribution was made from the fund during the years ended August 31, 2010 and 2009. The fair market value of the MSCF fund at August 31, 2010 and 2009 reported below includes the third-party contributions made directly to the fund.

The Academy also owns stock outside of its endowment investment accounts.

At August 31, 2010 and 2009, short-term investments consisted of certificates of deposit (term over three months, but less than one year) valued at \$70,626 and \$70,455, respectively.

Long-term investments are comprised of the following:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
<u>August 31, 2010</u>			
Money market funds	\$ 36,161	\$ 36,161	\$ -
Common stocks	262,293	262,293	-
Mutual funds	2,179,535	2,179,535	-
MSCF investment	30,177	-	30,177
Total	<u>\$ 2,508,166</u>	<u>\$ 2,477,989</u>	<u>\$ 30,177</u>
<u>August 31, 2009</u>			
Money market funds	\$ 21,630	\$ 21,630	\$ -
Common stocks	283,203	283,203	-
Mutual funds	2,096,333	2,096,333	-
MSCF investment	28,218	-	28,218
Total	<u>\$ 2,429,384</u>	<u>\$ 2,401,166</u>	<u>\$ 28,218</u>

There were no level 3 investments at August 31, 2010 and 2009.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(4) Investments – continued

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

	<u>2010</u>	<u>2009</u>
Dividend and interest income	\$ 47,238	\$ 112,588
Realized losses	(66,796)	(329,444)
Unrealized gains (losses)	217,180	(32,999)
Total investment gain (loss)	<u>\$ 197,622</u>	<u>\$ (249,855)</u>

(5) Line of credit

The Academy has a \$400,000 unsecured line of credit with Talbot Bank to be drawn upon as needed through January 16, 2011. Interest on the outstanding balances accrues at 0.5% above prime. The line of credit had no outstanding balance at August 31, 2010 and 2009. On January 16, 2011, the line of credit was extended for an additional one year term expiring in January, 2012.

(6) Employee retirement plans

The Academy 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 Academy's financial position at the end of each fiscal year. Employees may not contribute to this plan. Retirement expense was \$9,700 and \$11,040, respectively, at August 31, 2010 and 2009.

The Academy 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 Academy does not contribute to this plan.

(7) Postretirement benefits

Other than its retirement plans, the Academy does not provide postretirement 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

(8) Endowment

The Academy'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 Academy's endowment funds support education and art programs, and the mission of the Academy. 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.

The Board of Trustees of the Academy 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 Academy 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 Academy 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 conditions, (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 Academy, and (7) the Academy's investment policies.

Investment return objectives, risk parameters and strategies – The Academy 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, including equity and debt 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 growing the funds if possible. Therefore, the Academy has a goal for its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. 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

(8) Endowment – continued

Spending policy – The Academy 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 Academy 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. The Academy expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with the Academy's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
<u>August 31, 2010</u>				
Board-designated endowment funds	\$ 2,305,618	\$ -	\$ -	\$ 2,305,618
Donor-restricted endowment funds	-	2,500	197,850	200,350
Total endowment funds	<u>\$ 2,305,618</u>	<u>\$ 2,500</u>	<u>\$ 197,850</u>	<u>\$ 2,505,968</u>
<u>August 31, 2009</u>				
Board-designated endowment funds	\$ 2,228,764	\$ -	\$ -	\$ 2,228,764
Donor-restricted endowment funds	-	2,750	197,850	200,600
Total endowment funds	<u>\$ 2,228,764</u>	<u>\$ 2,750</u>	<u>\$ 197,850</u>	<u>\$ 2,429,364</u>

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(8) Endowment – continued

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
<u>August 31, 2010</u>				
Endowment net assets, beginning of year	\$ 2,228,764	\$ 2,750	\$ 197,850	\$ 2,429,364
Investment loss	(20,672)	-	-	(20,672)
Net appreciation	217,180	-	-	217,180
Amounts appropriated for expenditure	(119,654)	(250)	-	(119,904)
Release from restrictions	-	-	-	-
Total endowment funds	<u>\$ 2,305,618</u>	<u>\$ 2,500</u>	<u>\$ 197,850</u>	<u>\$ 2,505,968</u>
<u>August 31, 2009</u>				
Endowment net assets, beginning of year	\$ 2,499,228	\$ 11,500	\$ 197,850	\$ 2,708,578
Investment loss	(219,269)	-	-	(219,269)
Net appreciation	(32,999)	-	-	(32,999)
Amounts appropriated for expenditure	(18,196)	(250)	-	(18,446)
Release from restrictions	-	(8,500)	-	(8,500)
Total endowment funds	<u>\$ 2,228,764</u>	<u>\$ 2,750</u>	<u>\$ 197,850</u>	<u>\$ 2,429,364</u>

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS

(9) Restricted net assets

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

	<u>2010</u>	<u>2009</u>
Learned Peabody Porter Award for Drawing	\$ 2,500	\$ 2,750
Piano retuning and restoration	10,000	-
Restricted to program purposes	<u>14,067</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 26,567</u>	<u>\$ 2,750</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Academy's general activities.

(10) Intentions to give

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

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

Due to the uncertain nature of these intentions, the Academy has not recognized an asset or contribution revenue for these gifts. The estimated total intentions to give were approximately \$570,000 at August 31, 2010.

(11) Subsequent events

The Organization has evaluated subsequent events through March 25, 2011, the date which the financial statements were available to be issued.

ADDITIONAL INFORMATION

The logo consists of the letters 'MHM' in a white, bold, sans-serif font, centered within a solid black square.

Mayer Hoffman McCann P.C.

An Independent CPA Firm

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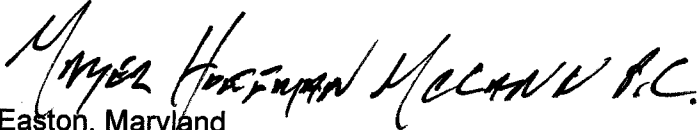
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors

ACADEMY ART MUSEUM, INC.

Our report on our audit of the basic financial statements of Academy Art Museum, Inc. for August 31, 2010 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included in schedules I – IV is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The prior year summarized comparative information has been derived from the Academy's 2009 financial statements and, in our report dated January 25, 2010, we expressed an unqualified opinion on those financial statements.

A handwritten signature in black ink, appearing to read 'Mayer Hoffman McCann P.C.', written in a cursive style.

Easton, Maryland
March 25, 2011

ACADEMY ART MUSEUM, INC.
SCHEDULE I – REVENUES AND SUPPORT
Years Ended August 31, 2010 and 2009

	2010			2009		
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL	TOTAL
REVENUES AND SUPPORT EARNED						
Admissions	\$ 38,279	\$ -	\$ -	\$ 38,279		\$ 38,078
Sales	963	-	-	963		3,645
Rentals	2,931	-	-	2,931		3,828
Tuition	221,916	-	-	221,916		255,830
Miscellaneous	1,941	-	-	1,941		878
TOTAL REVENUES AND SUPPORT EARNED	<u>266,030</u>	<u>-</u>	<u>-</u>	<u>266,030</u>		<u>302,259</u>
CONTRIBUTED SUPPORT						
Individuals	383,438	27,287	-	410,725		581,481
Corporations	16,271	-	-	16,271		32,530
Foundations	17,500	35,000	-	52,500		34,150
Civic and other organizations	200	-	-	200		-
Government grants - state and county	84,086	16,000	-	100,086		82,130
Special events	147,624	-	-	147,624		122,939
Assets released from restrictions	54,470	(54,470)	-	-		-
TOTAL CONTRIBUTED SUPPORT	<u>703,589</u>	<u>23,817</u>	<u>-</u>	<u>727,406</u>		<u>853,230</u>
INVESTMENT INCOME (LOSS)						
Interest and dividends	47,238	-	-	47,238		112,589
Realized loss on sale of investments	(66,796)	-	-	(66,796)		(329,445)
Unrealized gain (loss) on investments	217,180	-	-	217,180		(32,999)
TOTAL INVESTMENT INCOME (LOSS)	<u>197,622</u>	<u>-</u>	<u>-</u>	<u>197,622</u>		<u>(249,855)</u>
TOTAL REVENUES AND SUPPORT	<u>\$ 1,167,241</u>	<u>\$ 23,817</u>	<u>\$ -</u>	<u>\$ 1,191,058</u>		<u>\$ 905,634</u>

ACADEMY ART MUSEUM, INC.
SCHEDULE II – FUNCTIONAL EXPENSES
 Years Ended August 31, 2010 and 2009

	PROGRAM	ADMINISTRATIVE	FUNDRAISING	PUBLIC RELATIONS	SPECIAL EVENT COSTS	TOTAL 2010	TOTAL 2009
Advertising	\$ 1,188	\$ 8,589	-	\$ -	\$ 10,421	\$ 20,198	\$ 22,100
Artwork exhibit expense	19,592	-	-	-	-	19,592	8,511
Bank service charges	-	8,977	-	-	-	8,977	5,897
Documentation/photography	249	-	-	-	-	249	2,076
Employee training	-	-	-	-	-	-	650
Equipment rental/repair	581	1,890	-	-	7,810	10,281	30,538
Fees - artists	11,000	-	1,409	-	9,500	21,909	23,337
Fees - instructors	199,890	-	-	-	-	199,890	207,388
Fees - professional	5,203	91,100	195	-	598	97,096	42,028
Investment and management fees	-	19,934	-	-	-	19,934	18,401
Miscellaneous	5,575	7,846	163	-	3,105	16,689	9,851
Official entertainment	1,227	1,380	7,199	-	24,045	33,851	27,298
Postage/ mailing	1,290	2,001	3,286	1,774	1,279	9,630	10,726
Printing	6,915	2,154	13,181	13,552	6,579	42,381	46,321
Program trips expense	15,496	-	-	-	-	15,496	10,351
Property expense - 116 Harrison	-	1,704	-	-	-	1,704	2,865
Sales commissions and expenses	690	-	-	-	-	690	1,898
Shipping and delivery charges	15,823	225	75	-	-	16,123	24,286
Space rental	-	-	-	-	-	-	905
Subscriptions and professional dues	637	2,540	473	-	40	3,690	3,425
Supplies and materials	24,965	7,193	3,637	-	19,920	55,715	62,142
Travel	1,424	-	99	26	750	2,299	2,773
Uncollectible pledges	-	-	-	-	-	-	1,000
	<u>311,745</u>	<u>155,533</u>	<u>29,717</u>	<u>15,352</u>	<u>84,952</u>	<u>597,299</u>	<u>567,855</u>
PERSONNEL COSTS							
Salaries	159,816	110,469	27,514	11,530	12,603	321,932	370,100
Payroll taxes	15,565	2,850	2,680	1,123	1,227	23,445	24,688
Retirement	4,418	3,054	761	319	348	8,900	10,124
Benefits	10,835	17,876	1,865	782	854	32,212	26,983
TOTAL PERSONNEL COSTS	<u>190,634</u>	<u>134,249</u>	<u>32,820</u>	<u>13,754</u>	<u>15,032</u>	<u>386,489</u>	<u>431,895</u>
FACILITY EXPENSES							
Utilities	48,988	9,769	-	-	690	59,447	61,630
Maintenance and supplies	12,814	2,629	-	-	180	15,623	14,656
Personnel expense	31,682	2,418	-	-	446	34,546	38,220
Insurance	33,886	8,401	-	-	-	42,287	31,931
Service agreements	5,482	1,250	1,175	-	-	7,907	4,907
Telephone	6,051	2,524	1,513	-	-	10,088	7,185
TOTAL FACILITY EXPENSES	<u>138,903</u>	<u>26,991</u>	<u>2,688</u>	<u>-</u>	<u>1,316</u>	<u>169,898</u>	<u>158,529</u>
DEPRECIATION	132,755	9,992	-	-	-	142,747	142,387
TOTAL FUNCTIONAL EXPENSES	<u>\$ 774,037</u>	<u>\$ 326,765</u>	<u>\$ 65,225</u>	<u>\$ 29,106</u>	<u>\$ 101,300</u>	<u>\$ 1,296,433</u>	<u>\$ 1,300,666</u>

ACADEMY ART MUSEUM, INC.
SCHEDULE III - FINANCIAL POSITION – OPERATING FUND

August 31, 2010 and 2009

	2010	2009
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 114,816	\$ 138,720
Pledges receivable	10,450	27,291
Grants receivable	63,458	89,086
Short-term investments	70,626	70,455
Prepaid expenses	6,426	13,028
TOTAL CURRENT ASSETS	265,776	338,580
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	3,282,358	3,394,748
NONCURRENT ASSETS		
Promises and grants receivable	-	21,854
TOTAL ASSETS	\$ 3,548,134	\$ 3,755,182
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 29,681	\$ 10,437
Accrued expenses	191	7,426
Deferred revenue	121,363	167,727
TOTAL CURRENT LIABILITIES	151,235	185,590
<u>NET ASSETS</u>		
UNRESTRICTED	3,372,832	3,569,592
TEMPORARILY RESTRICTED	24,067	-
TOTAL NET ASSETS	3,396,899	3,569,592
TOTAL LIABILITIES AND NET ASSETS	\$ 3,548,134	\$ 3,755,182

ACADEMY ART MUSEUM, INC.

SCHEDULE IV – ACTIVITIES – OPERATING FUND

Years Ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES AND SUPPORT EARNED		
Admissions	\$ 38,279	\$ 38,078
Sales	963	3,645
Rentals	2,931	3,828
Tuition	221,916	255,830
Miscellaneous	1,941	878
TOTAL REVENUES AND SUPPORT EARNED	<u>266,030</u>	<u>302,259</u>
CONTRIBUTED SUPPORT		
Individuals	410,725	581,481
Corporations	16,271	32,530
Foundations	52,500	34,150
Civic and other organizations	200	-
Government grants - state and county	100,086	82,130
Special events	147,625	122,939
TOTAL CONTRIBUTED SUPPORT	<u>727,407</u>	<u>853,230</u>
INVESTMENT INCOME		
Interest and dividends	965	2,165
TOTAL REVENUES AND SUPPORT	<u>994,402</u>	<u>1,157,654</u>
EXPENSES BEFORE DEPRECIATION		
Program - arts programs	641,034	698,195
General administration	296,839	221,229
Fundraising	65,225	100,352
Public relations	29,106	22,281
Special events	101,300	96,571
TOTAL EXPENSES BEFORE DEPRECIATION	<u>1,133,504</u>	<u>1,138,628</u>
(DEFICIENCY) EXCESS OF REVENUES AND SUPPORT OVER EXPENSES BEFORE DEPRECIATION	(139,102)	19,026
DEPRECIATION EXPENSE	(142,747)	(142,387)
INTERFUND TRANSFERS	<u>109,156</u>	<u>(8,976)</u>
DECREASE IN NET ASSETS BEFORE CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED	(172,693)	(132,337)
COLLECTION ITEMS PURCHASED	-	(19,000)
NET ASSETS, BEGINNING OF YEAR	<u>3,569,592</u>	<u>3,720,929</u>
TOTAL NET ASSETS	<u>\$ 3,396,899</u>	<u>\$ 3,569,592</u>