

**ACADEMY ART MUSEUM, INC.**  
**FINANCIAL STATEMENTS**  
**AND ADDITIONAL INFORMATION**  
Years Ended August 31, 2012 and 2011

**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. (a nonprofit organization) (the "Museum") as of August 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Museum'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 Museum's 2011 financial statements and, in our report dated February 13, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 audit provides 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of revenues and support and functional expenses on pages 17 and 18 are presented for purposes of additional analysis and are 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 taken as a whole.

*Mayer Hoffman McCann P.C.*  
Easton, Maryland  
April 30, 2013

**ACADEMY ART MUSEUM, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

August 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 103,200	\$ 130,439
Current portion of pledges receivable	5,331	4,011
Grants receivable	73,518	73,599
Receivable from estate in settlement	138,199	-
Short-term investments	72,223	70,949
Prepaid expenses	44,933	24,343
<b>TOTAL CURRENT ASSETS</b>	<b>437,404</b>	<b>303,341</b>
COLLECTIONS (note 1)	-	-
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	3,078,515	3,200,273
<b>NONCURRENT ASSETS</b>		
Long-term investments	3,043,658	2,965,383
Pledges receivable, less current portion	19,230	-
<b>TOTAL NONCURRENT ASSETS</b>	<b>3,062,888</b>	<b>2,965,383</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,578,807</b>	<b>\$ 6,468,997</b>
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 26,573	\$ 12,330
Accrued expenses	8,973	-
Deferred revenue	143,402	141,305
<b>TOTAL CURRENT LIABILITIES</b>	<b>178,948</b>	<b>153,635</b>
<b><u>NET ASSETS</u></b>		
<b>UNRESTRICTED</b>		
Board designated	2,838,623	2,763,269
Other	3,341,971	3,334,474
<b>TEMPORARILY RESTRICTED</b>	21,415	19,769
<b>PERMANENTLY RESTRICTED</b>	197,850	197,850
<b>TOTAL NET ASSETS</b>	<b>6,399,859</b>	<b>6,315,362</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,578,807</b>	<b>\$ 6,468,997</b>

See Notes to Financial Statements

ACADEMY ART MUSEUM, INC.

STATEMENTS OF ACTIVITIES

Years Ended August 31, 2012 and 2011

	2012			2011	
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
<b>REVENUES AND SUPPORT</b>					
Revenues and support earned	\$ 343,504	\$ -	\$ -	\$ 343,504	\$ 274,832
Contributed support	900,294	106,756	-	1,007,050	1,196,897
Investments	211,266	-	-	211,266	277,283
Net assets released from restriction	105,110	(105,110)	-	-	-
<b>TOTAL REVENUES AND SUPPORT</b>	<u>1,560,174</u>	<u>1,646</u>	<u>-</u>	<u>1,561,820</u>	<u>1,749,012</u>
<b>EXPENSES</b>					
Program - arts programs, including depreciation (\$135,422, 2012; \$142,709, 2011)	876,449	-	-	876,449	759,648
General administration, including depreciation (\$10,193, 2012; \$10,742, 2011)	263,090	-	-	263,090	246,089
Fundraising	152,358	-	-	152,358	174,928
Public relations	35,069	-	-	35,069	38,976
Special events	149,257	-	-	149,257	117,974
<b>TOTAL EXPENSES</b>	<u>1,476,223</u>	<u>-</u>	<u>-</u>	<u>1,476,223</u>	<u>1,337,615</u>
<b>CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED</b>	83,951	1,646	-	85,597	411,397
<b>COLLECTION ITEMS PURCHASED CHANGE IN NET ASSETS</b>	<u>(1,100)</u>	<u>-</u>	<u>-</u>	<u>(1,100)</u>	<u>(1,100)</u>
	82,851	1,646	-	84,497	410,297
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>6,097,743</u>	<u>19,769</u>	<u>197,850</u>	<u>6,315,362</u>	<u>5,905,065</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 6,180,594</u>	<u>\$ 21,415</u>	<u>\$ 197,850</u>	<u>\$ 6,399,859</u>	<u>\$ 6,315,362</u>

See Notes to Financial Statements

**ACADEMY ART MUSEUM, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years Ended August 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets before changes related to collection items not capitalized	\$ 85,597	\$ 411,397
Adjustments to reconcile increase in net assets before changes related to collection items to net cash flows from operating activities:		
Depreciation	145,615	153,451
Stock contributions	(85,632)	(47,298)
Realized gain on sale of investments	(33,082)	(65,839)
Unrealized gain on investments	(102,791)	(140,617)
Realized loss on the disposal of fixed assets	394	169
Decrease (increase) in operating assets:		
Pledges and grants receivable	(20,469)	(3,702)
Prepaid expenses	(20,590)	(17,917)
Change in value of estate receivable	(138,199)	-
Increase (decrease) in operating liabilities:		
Accounts payable	14,243	(17,351)
Accrued expenses	8,973	(191)
Deferred revenue	2,097	19,942
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(143,844)</b>	<b>292,044</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in equipment	(24,250)	(71,534)
Purchase of collection items not capitalized	(1,100)	(1,100)
Proceeds from sale of long-term investments	790,764	1,145,196
Purchase of short-term investments	(1,275)	(323)
Purchase of long-term investments	(647,534)	(1,348,660)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>116,605</b>	<b>(276,421)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(27,239)</b>	<b>15,623</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>130,439</b>	<b>114,816</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 103,200</b>	<b>\$ 130,439</b>

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 "Museum") 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 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 presentation** - The financial statements of the Museum 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 Museum at the discretion of the Board of Trustees.

Temporarily restricted net assets are those whose use by the Museum 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 Museum in perpetuity. Only the income is available for program operations in accordance with donor restrictions.

**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 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.

**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**

**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 Museum does not generally experience collectability issues regarding its contributions. Management has provided no allowance for uncollectible pledges for the years ended August 31, 2012 and 2011.

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 as specified by the donor or designated by the Board of Trustees. Contributions of marketable securities totaled \$85,699 and \$47,298 for the years ended August 31, 2012 and 2011, respectively.

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 years ended August 31, 2012 and 2011.

**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 235 volunteers donate over 11,750 hours of their time on behalf of the Museum's efforts.

**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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

**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, 2012 and 2011, the Museum added 111 and 23 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 Museum'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.

**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 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 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:



**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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

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.

**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 Schedule II – Functional Expenses in the supplementary information. Accordingly, certain costs have been allocated among the categories presented.

**Advertising** – Advertising costs are expensed as incurred. Advertising expense for the years ended August 31, 2012 and 2011 was \$26,610 and \$18,952, respectively.

**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.

**Income taxes** – The Museum 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 Museum's tax-exempt purpose may be subject to taxation as unrelated business income.

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 Forms 990, *Return of Organization Exempt from Income Tax*, are subject to examination by the IRS, generally for three years after they were filed.

**Board designated reserves** – The Board of Trustees has designated certain unrestricted net assets as a maintenance reserve and a cash reserve. At August 31, 2012 and 2011, the balance in these reserves was approximately \$41,000. These assets are invested in certificates of deposit and are included in short-term investments on the statement of financial position.

**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**(2) Concentration of credit risk**

Demand deposits and certificates of deposit (classified as short-term investments on the Statement of Financial Position) held at commercial banking institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per bank at August 31, 2012 and 2011. At August 31, 2012 and 2011, the Museum's balances were fully insured by FDIC coverage.

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.

**(3) Comparative financial statements**

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended August 31, 2011, from which the summarized information was derived.

**(4) 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.

Unconditional promises to give at fair value on August 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 5,710	\$ 4,011
Receivable in one to five years	20,000	-
Total unconditional promises to give	<u>25,710</u>	<u>4,011</u>
Discount to net present value	<u>(1,149)</u>	-
Net unconditional promises to give	<u>\$ 24,561</u>	<u>\$ 4,011</u>

**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**(4) Pledges and grants receivable - continued**

Unconditional promises to give with due dates extending beyond one year are discounted using Treasury rates for similar term investments. The applicable rate at August 31, 2012 was 1.59%.

At August 31, 2012, approximately 86% of outstanding promises to give were due from a private foundation.

There were no conditional promises to give at August 31, 2012 and 2011.

Specific pledges are written-off when management deems collection is not likely. There was \$900 of pledges written-off as uncollectible during the year ended August 31, 2012. There were no pledges written-off as uncollectible during the year ended August 31, 2011.

**(5) Property and equipment**

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

	<u>2012</u>	<u>2011</u>
Construction in progress	\$ -	\$ 13,000
Land and improvements	294,571	294,571
Buildings and improvements	4,295,328	4,265,998
Equipment and furniture	459,702	468,101
Total cost	<u>5,049,601</u>	<u>5,041,670</u>
Less: accumulated depreciation	<u>(1,971,086)</u>	<u>(1,841,397)</u>
Net property and equipment	<u>\$ 3,078,515</u>	<u>\$ 3,200,273</u>

**(6) 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).

**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**(6) Investments – continued**

The Museum established a fund within 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. No income distribution was made from the fund during the years ended August 31, 2012 and 2011. The fair market value of the MSCF fund at August 31, 2012 and 2011, 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.

At August 31, 2012 and 2011, short-term investments consisted of certificates of deposit (term over three months, but less than one year) valued at \$72,223 and \$70,949, respectively.

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

Long-term investments are comprised of the following:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
<u>August 31, 2012</u>			
Money market funds	\$ 59,399	\$ 59,399	\$ -
Common stocks	114,657	114,657	-
Mutual funds	2,832,345	2,832,345	-
MSCF investment	37,257	-	37,257
Total	<u>\$ 3,043,658</u>	<u>\$ 3,006,401</u>	<u>\$ 37,257</u>
<u>August 31, 2011</u>			
Money market funds	\$ 68,666	\$ 68,666	\$ -
Common stocks	157,412	157,412	-
Mutual funds	2,705,310	2,705,310	-
MSCF investment	33,995	-	33,995
Total	<u>\$ 2,965,383</u>	<u>\$ 2,931,388</u>	<u>\$ 33,995</u>

There were no investments deemed by management to be classified as level 3 investments at August 31, 2012 and 2011.

**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**(6) Investments – continued**

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

	<u>2012</u>	<u>2011</u>
Dividend and interest income	\$ 75,393	\$ 70,827
Realized gains	33,082	65,839
Unrealized gains	102,791	140,617
Total investment income	<u>\$ 211,266</u>	<u>\$ 277,283</u>

**(7) Line of credit**

The Museum has available a \$400,000 unsecured line of credit with Talbot Bank to be drawn upon as needed. The agreement ended January 16, 2013. A new agreement is in process and the line of credit continues to be active. Interest on the outstanding balance accrues at the lender's determined prime rate. The line of credit had no outstanding balance at August 31, 2012 and 2011.

**(8) 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. Employees may not contribute to this plan. Retirement expense was \$22,898 and \$16,923, respectively, at August 31, 2012 and 2011.

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.

**(9) Postretirement benefits**

Other than its retirement plans, the Museum 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.

**(10) 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.

- Continued -

**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**(10) 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 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 Museum, and (7) the Museum’s investment policies.

**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.

**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.

**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**(10) Endowment – continued**

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, 2012</u>				
Board-designated endowment funds	\$ 2,838,623	\$ -	\$ -	\$ 2,838,623
Donor-restricted endowment funds	-	4,983	197,850	202,833
Total endowment funds	<u>\$ 2,838,623</u>	<u>\$ 4,983</u>	<u>\$ 197,850</u>	<u>\$ 3,041,456</u>
<u>August 31, 2011</u>				
Board-designated endowment funds	\$ 2,763,269	\$ -	\$ -	\$ 2,763,269
Donor-restricted endowment funds	-	2,250	197,850	200,100
Total endowment funds	<u>\$ 2,763,269</u>	<u>\$ 2,250</u>	<u>\$ 197,850</u>	<u>\$ 2,963,369</u>

**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**(10) 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, 2012</u>				
Endowment net assets, beginning of year	\$ 2,763,269	\$ 2,250	\$ 197,850	\$ 2,963,369
Additional donor designation of funds	-	3,483	-	3,483
Investment income	106,673	-	-	106,673
Net appreciation	99,194	-	-	99,194
Amounts appropriated for expenditure	(130,513)	-	-	(130,513)
Release from restrictions	-	(750)	-	(750)
<b>Total endowment funds</b>	<b><u>\$ 2,838,623</u></b>	<b><u>\$ 4,983</u></b>	<b><u>\$ 197,850</u></b>	<b><u>\$ 3,041,456</u></b>
<u>August 31, 2011</u>				
Endowment net assets, beginning of year	\$ 2,305,618	\$ 2,500	\$ 197,850	\$ 2,505,968
Additional Board designation of funds	202,821	-	-	202,821
Investment income	134,946	-	-	134,946
Net appreciation	140,617	-	-	140,617
Amounts appropriated for expenditure	(20,733)	-	-	(20,733)
Release from restrictions	-	(250)	-	(250)
<b>Total endowment funds</b>	<b><u>\$ 2,763,269</u></b>	<b><u>\$ 2,250</u></b>	<b><u>\$ 197,850</u></b>	<b><u>\$ 2,963,369</u></b>



**ACADEMY ART MUSEUM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**(11) Restricted net assets**

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

	<u>2012</u>	<u>2011</u>
Restricted for awards	\$ 4,983	\$ 2,250
Piano retuning and restoration	4,287	4,287
Restricted to program purposes	-	12,218
Studio renovations	-	1,014
Art acquisitions	<u>12,145</u>	<u>-</u>
 Total temporarily restricted net assets	 <u>\$ 21,415</u>	 <u>\$ 19,769</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 Museum's general activities.

**(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 \$570,000 at August 31, 2012.

**(13) Subsequent events**

The Organization has evaluated subsequent events through April 30, 2013, the date which the financial statements were available to be issued.

## **ADDITIONAL INFORMATION**

**ACADEMY ART MUSEUM, INC.**  
**SCHEDULE I – REVENUES AND SUPPORT**

Year Ended August 31, 2012

With Comparative Totals for Year Ended August 31, 2011

	2012			2011		
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED
<b>REVENUES AND SUPPORT EARNED</b>						
Admissions	\$ 80,993	\$ -	\$ -	\$ 80,993	\$ -	\$ -
Sales	13,179	-	-	13,179	-	-
Rentals	9,746	-	-	9,746	-	-
Tuition	224,969	-	-	224,969	-	-
Miscellaneous	14,617	-	-	14,617	-	-
<b>TOTAL REVENUES AND SUPPORT EARNED</b>	<b>343,504</b>	<b>-</b>	<b>-</b>	<b>343,504</b>	<b>-</b>	<b>-</b>
<b>CONTRIBUTED SUPPORT</b>						
Individuals	604,817	72,901	-	677,718	-	-
Corporations	21,928	8,200	-	30,128	-	-
Foundations	45,849	25,000	-	70,849	-	-
Civic and other organizations	150	-	-	150	-	-
Government grants - state and county	73,394	655	-	74,049	-	-
Special events	154,156	-	-	154,156	-	-
Assets released from restrictions	105,110	(105,110)	-	-	-	-
<b>TOTAL CONTRIBUTED SUPPORT</b>	<b>1,005,404</b>	<b>1,646</b>	<b>-</b>	<b>1,007,050</b>	<b>-</b>	<b>-</b>
<b>INVESTMENT INCOME</b>						
Interest and dividends	75,393	-	-	75,393	-	-
Realized gain on sale of investments	33,082	-	-	33,082	-	-
Unrealized gain on investments	102,791	-	-	102,791	-	-
<b>TOTAL INVESTMENT INCOME</b>	<b>211,266</b>	<b>-</b>	<b>-</b>	<b>211,266</b>	<b>-</b>	<b>-</b>
<b>TOTAL REVENUES AND SUPPORT</b>	<b>\$ 1,560,174</b>	<b>\$ 1,646</b>	<b>\$ -</b>	<b>\$ 1,561,820</b>	<b>\$ -</b>	<b>\$ 1,749,012</b>

**ACADEMY ART MUSEUM, INC.**  
**SCHEDULE II – FUNCTIONAL EXPENSES**

Year Ended August 31, 2012

With Comparative Totals for Year Ended August 31, 2011

	PROGRAM	GENERAL ADMINISTRATION	FUNDRAISING	PUBLIC RELATIONS	SPECIAL EVENTS COSTS	TOTAL 2012	TOTAL 2011
Advertising	\$ 7,658	\$ 9,640	\$ 1,685	\$ 1,815	\$ 5,812	\$ 26,610	\$ 18,952
Artwork exhibit expense	16,985	-	-	-	-	16,985	8,296
Bank service charges	799	16,990	-	-	-	17,789	13,048
Bad debt expense	-	-	900	-	-	900	-
Documentation/photography	-	142	-	-	-	142	1,050
Employee training	-	209	-	-	-	209	190
Equipment rental/repair	355	2,066	190	-	14,657	17,268	5,550
Fees - artists	17,415	475	-	-	16,695	34,585	45,190
Fees - instructors	182,553	-	-	-	-	182,553	189,517
Fees - professional	29,047	31,911	13,999	-	2,773	77,730	82,915
Investment and management fees	-	22,652	-	-	-	22,652	20,982
Miscellaneous	5,371	4,214	1,538	121	2,120	13,364	11,832
Official entertainment	4,788	120	14,723	-	39,671	59,302	51,864
Postage/ mailing	1,589	754	2,559	1,130	1,447	7,479	10,724
Printing	12,042	1,666	9,552	15,061	7,531	45,852	47,161
Program trips expense	23,002	-	-	-	-	23,002	10,872
Property expense - 116 Hamison	-	3,455	-	-	-	3,455	5,612
Shipping and delivery charges	4,539	-	5	-	20	4,564	2,804
Space rental	-	-	-	-	480	480	705
Subscriptions and professional dues	1,326	2,565	822	-	-	4,713	4,816
Supplies and materials	45,554	6,513	8,011	-	4,563	64,661	56,190
Travel	23,171	634	1,138	-	114	25,057	5,556
	<u>376,194</u>	<u>104,006</u>	<u>55,122</u>	<u>18,127</u>	<u>95,903</u>	<u>649,352</u>	<u>593,826</u>
<b>PERSONNEL COSTS</b>							
Salaries	173,708	108,150	76,065	14,090	43,062	415,075	330,417
Payroll taxes	12,685	7,743	5,555	1,029	3,145	30,157	24,492
Retirement	8,964	5,471	3,925	727	2,222	21,309	15,363
Benefits	13,509	8,245	5,915	1,096	3,349	32,114	27,081
<b>TOTAL PERSONNEL COSTS</b>	<u>208,866</u>	<u>129,609</u>	<u>91,460</u>	<u>16,942</u>	<u>51,778</u>	<u>498,655</u>	<u>397,353</u>
<b>FACILITY EXPENSES</b>							
Utilities	60,851	4,644	-	-	857	66,352	66,978
Maintenance and supplies	17,096	1,304	-	-	241	18,641	19,047
Personnel expense	33,946	2,591	-	-	478	37,015	40,344
Insurance	19,818	2,268	-	-	-	22,086	29,286
Service agreements	8,063	1,728	1,728	-	-	11,519	12,987
Telephone	16,193	6,747	4,048	-	-	26,988	24,343
<b>TOTAL FACILITY EXPENSES</b>	<u>155,967</u>	<u>19,282</u>	<u>5,776</u>	<u>-</u>	<u>1,576</u>	<u>182,601</u>	<u>192,985</u>
<b>DEPRECIATION</b>							
	135,422	10,193	-	-	-	145,615	153,451
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 876,449</u>	<u>\$ 263,090</u>	<u>\$ 152,358</u>	<u>\$ 35,069</u>	<u>\$ 149,257</u>	<u>\$ 1,476,223</u>	<u>\$ 1,337,615</u>