

ACADEMY ART MUSEUM, INC.
FINANCIAL STATEMENTS
and
SUPPLEMENTAL INFORMATION
YEARS ENDED AUGUST 30, 2017 and 2016

**ACADEMY ART MUSEUM, INC.
FINANCIAL STATEMENTS and
SUPPLEMENTAL INFORMATION**

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Independent Auditor's Report

Board of Directors
Academy Art Museum, Inc.
Easton, MD

We have audited the accompanying financial statements of Academy Art Museum, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements. The financial statements of Academy Art Museum, Inc. as of August 31, 2016, prior to restatement, were audited by other auditors whose report, dated February 17, 2017, expressed an unqualified opinion on those 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 on 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 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, 2017, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 13 that were applied to restate the August 31, 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 21-22 and the schedules of revenues and support on page 23 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 records used to prepare the financial statements. The information has been subjected to 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.

David Short & Associates, LLC

David Short & Associates, LLC

Easton, MD

February 9, 2018

ACADEMY ART MUSEUM, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u> <u>(AS RESTATED)</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 349,918	\$ 226,288
Pledges Receivable, Current Portion	80,506	208,500
Pledges Receivable from Trustees, Current Portion	346,586	57,895
Program Service Fees Receivable	808	359
Prepaid Expenses	23,147	5,604
Short-term Investments at Fair Value	2,452	2,609
<i>TOTAL CURRENT ASSETS</i>	<u>803,417</u>	<u>501,255</u>
Property and Equipment, Net of Accumulated Depreciation	2,485,270	2,691,276
NONCURRENT ASSETS		
Long-term Investments at Fair Value	3,970,427	3,751,680
Pledges Receivable, Net of Current Portion	129,726	40,248
Pledges Receivable from Trustees, Net of Current Portion	344,974	587,644
Certificates of Deposit	-	29,832
Security Deposit	370	-
<i>TOTAL NONCURRENT ASSETS</i>	<u>4,445,497</u>	<u>4,409,404</u>
<i>TOTAL ASSETS</i>	<u>\$ 7,734,184</u>	<u>\$ 7,601,935</u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 22,096	\$ 55,297
Accrued Expenses	28,334	362
Deferred Revenue	121,058	50,492
Line of Credit	118,004	92,927
<i>TOTAL CURRENT LIABILITIES</i>	<u>289,492</u>	<u>199,078</u>
<i>TOTAL LIABILITIES</i>	289,492	199,078

NET ASSETS

Unrestricted	2,048,263	2,512,013
Unrestricted - Board Designated for Endowment	3,772,577	3,553,830
<i>Total Unrestricted</i>	<u>5,820,840</u>	<u>6,065,843</u>
Temporarily Restricted	1,426,002	1,139,164
Permanently Restricted	197,850	197,850
<i>TOTAL NET ASSETS</i>	<u>7,444,692</u>	<u>7,402,857</u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<u>\$ 7,734,184</u>	<u>\$ 7,601,935</u>

See accompanying notes and independent auditor's report.

ACADEMY ART MUSEUM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Revenues and Support Earned	\$ 285,059	\$ -	\$ -	\$ 285,059
Contributions	932,729	385,879	-	1,318,608
Investment Income	376,095	-	-	376,095
Net Assets Released From Restrictions	99,041	(99,041)	-	-
<i>TOTAL REVENUES AND OTHER SUPPORT</i>	<u>1,692,924</u>	<u>286,838</u>	<u>-</u>	<u>1,979,762</u>
EXPENSES				
Program Services	890,949	-	-	890,949
General Administration	521,860	-	-	521,860
Fundraising	164,630	-	-	164,630
Public Relations	26,401	-	-	26,401
Special Events	200,856	-	-	200,856
<i>TOTAL EXPENSES</i>	<u>1,804,696</u>	<u>-</u>	<u>-</u>	<u>1,804,696</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(111,772)	286,838	-	175,066
OTHER CHANGES IN NET ASSETS				
Abandonment of Fixed Asset	(82,353)	-	-	(82,353)
Collection Items Purchased	(44,700)	-	-	(44,700)
Capital Campaign Expenses	(6,178)	-	-	(6,178)
<i>TOTAL OTHER CHANGES IN NET ASSETS</i>	<u>(133,231)</u>	<u>-</u>	<u>-</u>	<u>(133,231)</u>
TOTAL CHANGE IN NET ASSETS	(245,003)	286,838	-	41,835
NET ASSETS AT BEGINNING OF PERIOD	<u>6,065,843</u>	<u>1,139,164</u>	<u>197,850</u>	<u>7,402,857</u>
NET ASSETS AT END OF PERIOD	<u>\$ 5,820,840</u>	<u>\$ 1,426,002</u>	<u>\$ 197,850</u>	<u>\$ 7,444,692</u>

See accompanying notes and independent auditor's report.

ACADEMY ART MUSEUM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Revenues and Support Earned	\$ 304,677	\$ -	\$ -	\$ 304,677
Contributions	869,417	1,317,658	-	2,187,075
Investment Income	214,089	-	-	214,089
Net Assets Released From Restrictions	304,308	(304,308)	-	-
<i>TOTAL REVENUES AND OTHER SUPPORT</i>	<u>1,692,491</u>	<u>1,013,350</u>	<u>-</u>	<u>2,705,841</u>
EXPENSES				
Program Services	849,685	-	-	849,685
General Administration	431,163	-	-	431,163
Fundraising	132,033	-	-	132,033
Public Relations	33,432	-	-	33,432
Special Events	145,214	-	-	145,214
<i>TOTAL EXPENSES</i>	<u>1,591,527</u>	<u>-</u>	<u>-</u>	<u>1,591,527</u>
CHANGES IN NET ASSETS FROM OPERATIONS	100,964	1,013,350	-	1,114,314
OTHER CHANGES IN NET ASSETS				
Collection Items Purchased	(29,275)	-	-	(29,275)
Capital Campaign Expenses	(180,800)	-	-	(180,800)
<i>TOTAL OTHER CHANGES IN NET ASSETS</i>	<u>(210,075)</u>	<u>-</u>	<u>-</u>	<u>(210,075)</u>
TOTAL CHANGE IN NET ASSETS, AS RESTATED	(109,111)	1,013,350	-	904,239
NET ASSETS AT BEGINNING OF PERIOD	<u>6,174,954</u>	<u>125,814</u>	<u>197,850</u>	<u>6,498,618</u>
NET ASSETS AT END OF PERIOD, AS RESTATED	<u>\$ 6,065,843</u>	<u>\$ 1,139,164</u>	<u>\$ 197,850</u>	<u>\$ 7,402,857</u>

See accompanying notes and independent auditor's report.

**ACADEMY ART MUSEUM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016**

	2017	2016 (AS RESTATED)
CASH FLOW FROM OPERATING ACTIVITIES		
Change In Net Assets	\$ 41,835	\$ 904,239
Adjustments To Reconcile Change In Net Assets To Net Cash (Used)/Provided By Operations		
Depreciation	132,181	128,385
Realized (Gain)/Loss on Sale of Investments	(44,389)	68,855
Unrealized Gain on Investments	(273,484)	(177,856)
Loss on Asset Abandonment	82,353	-
(Increase)/Decrease in:		
Pledges & Grants Receivable	(7,505)	(691,736)
Program Service Fees Receivable	(449)	3,309
Prepaid Expenses	(17,543)	9,048
Increase/(Decrease) in:		
Accounts Payable	(33,201)	21,263
Accrued Expenses	27,972	310
Deferred Revenue	70,566	(87,775)
<i>Net Cash (Used)/Provided by Operating Activities</i>	(21,664)	178,042
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(8,324)	(78,416)
Proceeds/(Reinvestment) from Redemption of Certificates of Deposit	29,832	(30)
Proceeds from Sale of Long-term Investments	1,461,532	753,507
Purchase of Investments	(1,362,823)	(833,378)
<i>Net Cash Provided/(Used) by Investing Activities</i>	120,217	(158,317)
CASH FLOW FROM FINANCING ACTIVITIES		
Draws on Line of Credit	32,515	100,000
Payments on Line of Credit	(7,438)	(7,073)
<i>Net Cash Provided by Financing Activities</i>	25,077	92,927
NET INCREASE IN CASH	123,630	112,652
CASH, AT BEGINNING OF PERIOD	226,288	113,636
CASH, AT END OF PERIOD	\$ 349,918	\$ 226,288
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 3,650	\$ 6,150

See accompanying notes and independent auditor's report.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Academy Art Museum, Inc. (the Museum), is presented to assist in understanding the Museum's financial statements. The financial statements and notes are representations of the Museum's management who are responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Academy Art Museum, Inc. 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 Presentation

The financial statements of the Museum have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and accordingly reflect all significant receivables, payables, and other liabilities. Using this method, revenues are recognized when earned and expenses are recognized when the obligation is incurred. The significant accounting policies followed by the Society are described below:

Under FASB ASC 958-205-05 the Museum is required to classify resources for accounting and reporting purposes into three classes of net assets according to externally (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.

Estimates

The preparation of financial statements in conformity with 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 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
AUGUST 31, 2017 and 2016

Note 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Museum considers cash and cash equivalents to be cash in banks, petty cash on hand and investments or certificates of deposit with initial maturities of three months or less. 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, 2017 and 2016.

Grants and other contributions of cash and other assets are reported as temporarily restricted 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 as net assets released from restrictions. Grants are recorded as revenue when received or when conditions of the grant 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 that are received as contributions are sold with the proceeds utilized according to the donor's restrictions or the designation by the Board of Trustees. Contributions of marketable securities totaled \$ 93,728 and \$211,799 for the years ended August 31, 2017 and 2016 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. During the years ended August 31, 2017 and 2016, the Museum received donations of materials, property and service with an estimated fair value of \$4,615 and \$14,839, respectively.

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, a large number of volunteers donate a significant number of hours of their time annually on behalf of the Museum's efforts.

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 1. NATURE OF ACTIVITIES AND 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 and 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, 2017 and 2016, the Museum added 90 and 36 works of art to its collections, 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 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 used to purchase the items are so restricted by donors. Contributed permanent collection items are not reflected in the financial statements. Proceeds from any sales and insurance recoveries are reflected as income in the appropriate net asset classes.

Property and Equipment

Property and equipment are carried at cost if purchased, and at fair market or appraised value if donated. The Museum's policy is to charge additions greater than \$1,000 to the asset account if the item's useful life extends beyond the current period. However, the cost of repairs, maintenance and minor betterments are charged to operations in the year in which the cost is incurred. Asset and accumulated depreciation accounts are relieved when properties are retired or sold. Gains and losses from the sale of properties are included in income.

Depreciation of property and equipment is calculated by the straight-line method for financial reporting purposes at rates based on the following estimated useful lives:

	<u>Years</u>
Building 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:

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

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 1. NATURE OF ACTIVITIES AND 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 accounting principles generally accepted in the United States of America, 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 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 the interpretation, the Museum classifies as permanently restricted net assets (a) the original value of the 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 Museum 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.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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% to 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.

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.

Expense Allocation

The costs of providing the Museum's programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs benefited.

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 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). For the years ended August 31, 2017 and 2016, 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.

FASB ASC 740-10 requires the evaluation of tax positions, which include maintaining tax-exempt status and the taxability of any unrelated business income and does not allow recognition of tax positions which do not meet a "more likely than not" threshold of being sustained by the applicable taxing authority. Management does not believe it has taken any tax positions that would not meet this threshold.

Generally, the Museum is no longer subject to income tax examinations by the Federal or Maryland authorities for tax years ending before August 31, 2014.

See independent auditor's report

ACADEMY ART MUSEUM, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2017 and 2016

Note 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk

The Museum maintains its cash at two local banks. The bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At August 31, 2017 and during the year then ended, the balances in one of the banks exceeded the FDIC coverage level. At August 31, 2016, there were no bank account deposits in excess of FDIC insurance limits.

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.

Note 2. PLEDGES AND GRANTS RECEIVABLE

Unconditional promises to give at fair value on August 31, 2017 and 2016 are as follows:

	2017	2016
Receivable in less than one year	\$ 427,092	\$ 266,395
Receivable in one to five years	492,320	660,973
Total unconditional promises to give	919,412	927,368
Discount to net present value	(17,620)	(33,081)
Net contributions receivable	\$ 901,792	\$ 894,287

Unconditional promised to give with due dates extending beyond one year are discounted using Treasury rates for similar term investments. The applicable rates at August 31, 2017 and 2016 ranged from 2.58% to 1.5%

At August 31, 2017 and 2016, approximately 77% and 70% 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 \$6,209 and \$11,500 uncollectible pledges written off during the years ended August 31, 2017 and 2016, respectively.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 3. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost:

	2017	2016
Land and Improvements	\$ 127,645	\$ 127,645
Building and Improvements	4,454,645	4,530,415
Equipment and Furniture	520,549	518,604
Sub-Total	5,102,839	5,176,664
Less Accumulated Depreciation	(2,617,569)	(2,485,388)
Net Property and Equipment	\$ 2,485,270	\$ 2,691,276

Depreciation expense for the years ended August 31, 2017 and 2016 was \$132,181 and \$128,385, respectively.

Note 4. INVESTMENTS

Investments are recorded at fair value in the accompanying statements of financial position in accordance with FASB ASC 958-320-35. The fair values of investments with readily determinable fair values are based on quoted market prices. For further discussion of fair value, refer to Note 5.

The following summarizes the relationship between market values and costs of investments in marketable equity and debt securities.

	2017		2016	
	Market Value	Cost	Market Value	Cost
Fixed Income	\$ 1,368,588	\$ 1,372,257	\$ 1,195,013	\$ 1,194,282
Mutual Funds	1,589,769	1,398,115	1,423,266	1,394,320
Equity Securities	1,012,070	694,852	1,133,401	933,482
Total	\$ 3,970,427	\$ 3,465,224	\$ 3,751,680	\$ 3,522,084

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 4. INVESTMENTS - continued

Endowment Fund

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

	<u>2017</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 197,850	\$ 197,850
Board-Designated Endowment Funds	<u>3,772,577</u>	<u>-</u>	<u>-</u>	<u>3,772,577</u>
Total	<u>\$ 3,772,577</u>	<u>\$ -</u>	<u>\$ 197,850</u>	<u>\$ 3,970,427</u>
	 <u>2016</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 197,850	\$ 197,850
Board-Designated Endowment Funds	<u>3,553,830</u>	<u>-</u>	<u>-</u>	<u>3,553,830</u>
Total	<u>\$ 3,553,830</u>	<u>\$ -</u>	<u>\$ 197,850</u>	<u>\$ 3,751,680</u>

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 4. INVESTMENTS - continued

Endowment Fund - continued

The Endowment Fund activity for the years ending August 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, Beginning	\$ 3,553,830	\$ -	\$ 197,850	\$ 3,751,680
Contributions	25,831	-	-	25,831
Interest & Dividends	73,954	-	-	73,954
Unrealized Gain/(Loss)	273,483	-	-	273,483
Investment Gain/(Loss)	44,389	-	-	44,389
Distributions	(183,000)	-	-	(183,000)
Administrative Expenses	(15,910)	-	-	(15,910)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, Ending	<u>\$ 3,772,577</u>	<u>\$ -</u>	<u>\$ 197,850</u>	<u>\$ 3,970,427</u>

	<u>2016</u>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, Beginning	\$ 3,364,960	\$ -	\$ 197,850	\$ 3,562,810
Contributions	145,781	-	-	145,781
Interest & Dividends	105,088	-	-	105,088
Unrealized Gain/(Loss)	177,856	-	-	177,856
Investment Gain/(Loss)	(68,855)	-	-	(68,855)
Distributions	(171,000)	-	-	(171,000)
Administrative Expenses	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, Ending	<u>\$ 3,553,830</u>	<u>\$ -</u>	<u>\$ 197,850</u>	<u>\$ 3,751,680</u>

Note 5. FAIR VALUE MEASUREMENTS

No income distribution was made from the Mid-Shore Community Foundation, Inc. ("MSCF") fund during the years ended August 31, 2017 and 2016. The fair market value of the MSCF fund at August 31, 2017 and 2016, reported below, includes 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.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 5. FAIR VALUE MEASUREMENTS - continued

Fair value of assets and liabilities measured on a recurring basis at August 31, 2017 and 2016 are as follows:

Fair Value Measurements at Reported Date Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>August 31, 2017</u>				
Money Market Funds	\$ 89,895	\$ 89,895	\$ -	\$ -
Domestic Common Stocks	901,669	901,669	-	-
Foreign Common Stocks	57,756	57,756	-	-
Mutual Funds	1,589,769	1,589,769	-	-
Bond Funds	1,278,693	1,278,693	-	-
MSCF Investment	52,645		52,645	-
Total	\$ 3,970,427	\$ 3,917,782	\$ 52,645	\$ -
<u>August 31, 2016</u>				
Money Market Funds	\$ 122,962	\$ 122,962	\$ -	\$ -
Domestic Common Stocks	992,053	992,053	-	-
Foreign Common Stocks	93,322	93,322	-	-
Mutual Funds	1,423,266	1,423,266	-	-
Bond Funds	1,074,663	1,074,663	-	-
MSCF Investment	48,023		48,023	-
Total	\$ 3,754,289	\$ 3,706,266	\$ 48,023	\$ -

There were no investments deemed by management to be classified as level 3 investments at August 31, 2017 and 2016, respectively.

Note 6. LINE OF CREDIT

The Museum has available a \$250,000 unsecured line of credit with Shore United Bank to be drawn upon as needed. Interest on the outstanding loan balance accrues at the lender's determined prime rate, which was 4.75% at August 31, 2017. The line of credit had an outstanding balance of \$118,004 and \$92,927 at August 31, 2017 and 2016 respectively.

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ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 7. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Piano Tuning and Restoration	\$ 1,317	\$ 1,317
Art Acquisitions	42,344	70,344
Time Restriction on Donated Asset	32,000	32,000
Capital Campaign	<u>1,350,341</u>	<u>1,035,503</u>
Total temporarily restricted net assets	<u>\$1,426,002</u>	<u>\$1,139,164</u>

Note 8. RETIREMENT PLAN

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 \$19,826 and \$14,058, respectively, at August 31, 2017 and 2016.

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 9. ADVERTISING

Advertising costs are expensed as incurred. Advertising expense for the years ended August 31, 2017 and 2016 was \$18,524 and \$41,613, respectively.

Note 10. RELATED PARTY TRANSACTIONS

Members of the Board of Trustees provide contributions to support the Museum’s programs. During the year ended August 31, 2017, contributions from Trustees totaled \$352,200.

Note 11. 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 at August 31, 2017 and 2016.

Note 12. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to recognize deferred revenue and prepaid expense from prior years that had never been reclassified. The effect was a restatement of net assets at August 31, 2016 from \$7,387,265 to \$7,402,857, as well as a restatement of the deferred revenue balance at August 31, 2016 from \$75,347 to \$50,492 and the prepaid expense balance at August 31, 2016 from \$14,867 to \$5,604.

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ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Note 13. SUBSEQUENT EVENTS

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through February 9, 2018, the date the financial statements were available to be issued.

ACADEMY ART MUSEUM, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2017

	<u>Program Services</u>	<u>General Administration</u>	<u>Fundraising</u>	<u>Public Relations</u>	<u>Special Events</u>	<u>Total Expenses</u>
Operating Expenses						
Advertising	\$ 12,364	\$ 836	\$ 261	\$ -	\$ 5,063	\$ 18,524
Artwork Exhibit Expense	5,583	411	20	-	-	6,014
Bank Service Charges	-	12,064	-	-	50	12,114
Bad Debt	359	-	5,850	-	-	6,209
Equipment Rental/Repair	358	8,804	3,100	-	92	12,354
Fees-Artist	42,896	-	150	-	7,436	50,482
Fees-Instructors	94,667	-	408	-	-	95,075
Fees-Professional	56,706	39,556	7,199	4,992	5,997	114,450
Insurance	-	2,734	-	-	-	2,734
Interest	-	3,650	-	-	-	3,650
Miscellaneous	-	533	62	-	40	635
Official Entertainment	19,754	2,746	9,162	44	57,454	89,160
Postage	577	3,885	1,936	1,857	1,283	9,538
Printing	4,292	599	4,571	19,051	5,371	33,884
Program Trips Expense	5,400	-	-	-	117	5,517
Shipping and Delivery Charges	6,150	-	-	-	-	6,150
Space Rental	-	4,070	-	-	-	4,070
Subscriptions and Professional Dues	2,111	30,805	1,836	457	7,473	42,682
Supplies and Materials	16,958	7,111	1,289	-	1,044	26,402
Travel	20,166	1,440	1,141	-	54,858	77,605
<i>Total Operating Expenses</i>	<u>288,341</u>	<u>119,244</u>	<u>36,985</u>	<u>26,401</u>	<u>146,278</u>	<u>617,249</u>
Personnel Costs						
Salaries and Wages	254,814	310,433	104,784	-	44,401	714,432
Payroll Taxes	21,129	25,810	8,712	-	3,692	59,343
Retirement	5,767	8,164	2,756	-	1,168	17,855
Search and Moving Expenses	5,854	6,177	2,085	-	884	15,000
Insurance	2,405	2,537	856	-	363	6,161
Benefits	20,693	21,833	7,370	-	3,123	53,019
<i>Total Personnel Costs</i>	<u>310,662</u>	<u>374,954</u>	<u>126,563</u>	<u>-</u>	<u>53,631</u>	<u>865,810</u>
Facility Expenses						
Utilities	69,703	5,327	-	-	-	75,030
Maintenance and Supplies	25,661	1,961	-	-	370	27,992
Personnel Expense	41,009	3,130	-	-	577	44,716
Insurance	19,357	2,159	-	-	-	21,516
Service Agreements	9,093	3,897	-	-	-	12,990
Telephone and Internet	4,327	1,803	1,082	-	-	7,212
<i>Total Facility Expenses</i>	<u>169,150</u>	<u>18,277</u>	<u>1,082</u>	<u>-</u>	<u>947</u>	<u>189,456</u>
Depreciation	<u>122,796</u>	<u>9,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,181</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 890,949</u>	<u>\$ 521,860</u>	<u>\$ 164,630</u>	<u>\$ 26,401</u>	<u>\$ 200,856</u>	<u>\$ 1,804,696</u>

See accompanying notes and independent auditor's report.

ACADEMY ART MUSEUM, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Program Services</u>	<u>General Administration</u>	<u>Fundraising</u>	<u>Public Relations</u>	<u>Special Events</u>	<u>Total Expenses</u>
Operating Expenses						
Advertising	\$ 26,016	\$ 3,029	\$ 1,481	\$ 4,778	\$ 6,309	\$ 41,613
Artwork Exhibit Expense	5,186	-	-	-	-	5,186
Bank Service Charges	24	9,433	(130)	-	-	9,327
Bad Debt	-	-	11,500	-	-	11,500
Equipment Rental/Repair	-	7,569	-	-	-	7,569
Fees-Artist	54,261	-	-	-	-	54,261
Fees-instructors	96,741	-	-	-	-	96,741
Fees-Professional	47,532	45,225	3,017	1,147	3,271	100,192
Investment Management Fees	-	18,616	-	-	-	18,616
Interest	-	4,933	-	-	-	4,933
Miscellaneous	-	1,627	1,430	-	-	3,057
Official Entertainment	13,168	1,597	11,406	-	969	27,140
Postage	269	3,881	1,108	2,692	259	8,209
Printing	8,650	831	4,414	23,663	1,292	38,850
Program Trips Expense	1,476	-	-	-	-	1,476
Shipping and Delivery Charges	18,578	27	-	-	-	18,605
Space Rental	-	4,440	-	-	-	4,440
Subscriptions and Professional Dues	1,258	28,026	690	912	125	31,011
Supplies and Materials	23,723	9,723	4,040	185	92,973	130,644
Travel	19,094	209	-	55	37	19,395
<i>Total Operating Expenses</i>	<u>315,976</u>	<u>139,166</u>	<u>38,956</u>	<u>33,432</u>	<u>105,235</u>	<u>632,765</u>
Personnel Costs						
Salaries and Wages	209,162	220,799	74,525	-	31,598	536,084
Payroll Taxes	17,680	18,664	6,299	-	2,671	45,314
Retirement	5,485	5,790	1,954	-	829	14,058
Benefits	20,808	21,965	7,414	-	3,143	53,330
<i>Total Personnel Costs</i>	<u>253,135</u>	<u>267,218</u>	<u>90,192</u>	<u>-</u>	<u>38,241</u>	<u>648,786</u>
Facility Expenses						
Utilities	57,223	4,368	-	-	806	62,397
Maintenance and Supplies	18,416	1,398	135	-	258	20,207
Personnel Expense	47,831	3,651	-	-	674	52,156
Insurance	25,567	2,926	-	-	-	28,493
Service Agreements	7,944	1,702	1,702	-	-	11,348
Telephone and Internet	4,195	1,747	1,048	-	-	6,990
<i>Total Facility Expenses</i>	<u>161,176</u>	<u>15,792</u>	<u>2,885</u>	<u>-</u>	<u>1,738</u>	<u>181,591</u>
Depreciation	<u>119,398</u>	<u>8,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,385</u>
TOTAL FUNCTIONAL EXPENSES	<u><u>\$ 849,685</u></u>	<u><u>\$ 431,163</u></u>	<u><u>\$ 132,033</u></u>	<u><u>\$ 33,432</u></u>	<u><u>\$ 145,214</u></u>	<u><u>\$ 1,591,527</u></u>

See accompanying notes and independent auditor's report.

ACADEMY ART MUSEUM, INC.
SCHEDULE OF REVENUES AND SUPPORT
FOR THE YEAR ENDED AUGUST 31, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
REVENUES AND SUPPORT EARNED					
Admissions	\$ 64,227	\$ -	\$ -	\$ 64,227	\$ 73,411
Sales	24,046	-	-	24,046	56,337
Rentals	10,408	-	-	10,408	7,192
Tuition	186,378	-	-	186,378	167,737
TOTAL REVENUES AND SUPPORT EARNED	285,059	-	-	285,059	304,677
CONTRIBUTED SUPPORT					
Individuals	513,572	360,229	-	873,801	1,503,930
Corporations	24,626	650	-	25,276	14,450
Foundations	52,489	25,000	-	77,489	83,463
Civic and Other Organizations	600	-	-	600	1,400
Government Grants - State and County	130,356	-	-	130,356	107,384
Memberships	108,346	-	-	108,346	109,209
Special Events	102,740	-	-	102,740	367,239
Assets Released from Restrictions	-	-	-	-	-
TOTAL CONTRIBUTED SUPPORT	932,729	385,879	-	1,318,608	2,187,075
INVESTMENT INCOME					
Interest and Dividends	74,132	-	-	74,132	105,088
Realized Gain/(Loss) on Sale of Investments	44,389	-	-	44,389	(68,855)
Unrealized Gain/(Loss) on Investments	273,484	-	-	273,484	177,856
Investment Fees	(15,910)	-	-	(15,910)	-
TOTAL INVESTMENT INCOME	376,095	-	-	376,095	214,089
LOSS ON DISPOSAL OF ASSETS					
	-	-	-	-	-
TOTAL REVENUES AND SUPPORT	\$ 1,593,883	\$ 385,879	\$ -	\$ 1,979,762	\$ 2,705,841

See independent auditor's report.