

ACADEMY ART MUSEUM, INC.
FINANCIAL STATEMENTS
and
SUPPLEMENTAL INFORMATION
YEARS ENDED AUGUST 31, 2021 and 2020

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

YEARS ENDED AUGUST 31, 2021 and 2020

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	3 – 4
FINANCIAL STATEMENTS	
Statements of Financial Position	5
Statements of Activities and Changes in Net Assets	6 – 7
Statements of Functional Expenses	8 – 9
Statements of Cash Flow	10
Notes to Financial Statements	11 – 22
SUPPLEMENTAL INFORMATION	
Schedules of Revenues and Support	23 - 24

DAVID SHORT & ASSOCIATES, LLC

117 BAY STREET, SUITE F · EASTON, MD 21601
PHONE 410-820-8400 · FAX 410-822-5681

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Academy Art Museum, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2021 and 2020 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Academy Art Museum, Inc. as of August 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of revenue and support on pages 23 and 24 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 as a whole.

David Short & Associates, LLC

David Short & Associates, LLC
Easton, MD
February 3, 2022

ACADEMY ART MUSEUM, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 497,336	\$ 481,677
Pledges Receivable, Current Portion	169,866	354,502
Pledges Receivable from Trustees, Current Portion	59,654	81,137
Prepaid Expenses	16,807	12,193
Short-term Investments at Fair Value	<u>2,940</u>	<u>2,940</u>
<i>TOTAL CURRENT ASSETS</i>	746,603	932,449
Property and Equipment, Net of Accumulated Depreciation	4,258,452	4,463,183
NONCURRENT ASSETS		
Long-term Investments at Fair Value	7,584,028	6,238,935
Pledges Receivable, Net of Current Portion	24,132	182,609
Pledges Receivable from Trustees, Net of Current Portion	64,966	105,854
Security Deposit	<u>370</u>	<u>370</u>
<i>TOTAL NONCURRENT ASSETS</i>	7,673,496	6,527,768
<i>TOTAL ASSETS</i>	<u><u>\$ 12,678,551</u></u>	<u><u>\$ 11,923,400</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 15,208	\$ 18,673
Accrued Expenses	9,283	63,148
Deferred Revenue	65,583	32,195
Refundable Advances	<u>15,500</u>	<u>-</u>
<i>TOTAL CURRENT LIABILITIES</i>	105,574	114,016
<i>TOTAL LIABILITIES</i>	105,574	114,016

NET ASSETS

Without Donor Restrictions	4,203,479	4,213,030
Without Donor Restrictions - Board Designated for Endowment	<u>7,187,743</u>	<u>6,140,085</u>
Total Without Donor Restrictions	11,391,222	10,353,115
With Donor Restrictions	<u>1,181,755</u>	<u>1,456,269</u>
<i>TOTAL NET ASSETS</i>	<u><u>12,572,977</u></u>	<u><u>11,809,384</u></u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<u><u>\$ 12,678,551</u></u>	<u><u>\$ 11,923,400</u></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, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Revenues and Support Earned	\$ 146,147	\$ -	\$ 146,147
Contributions	976,580	79,254	1,055,834
Investment Income	1,145,236	-	1,145,236
Net Assets Released From Restrictions	<u>353,768</u>	<u>(353,768)</u>	<u>-</u>
<i>TOTAL REVENUES AND OTHER SUPPORT</i>	2,621,731	(274,514)	2,347,217
 EXPENSES			
Program Services	844,193	-	844,193
General Administration	468,297	-	468,297
Fundraising	134,659	-	134,659
Special Events	<u>130,475</u>	<u>-</u>	<u>130,475</u>
<i>TOTAL EXPENSES</i>	<u>1,577,624</u>	<u>-</u>	<u>1,577,624</u>
 CHANGES IN NET ASSETS FROM OPERATIONS	1,044,107	(274,514)	769,593
 OTHER CHANGES IN NET ASSETS			
Collection Items Purchased	<u>(6,000)</u>	<u>-</u>	<u>(6,000)</u>
<i>TOTAL OTHER CHANGES IN NET ASSETS</i>	(6,000)	-	(6,000)
 TOTAL CHANGE IN NET ASSETS	1,038,107	(274,514)	763,593
 NET ASSETS AT BEGINNING OF PERIOD	<u>10,353,115</u>	<u>1,456,269</u>	<u>11,809,384</u>
 NET ASSETS AT END OF PERIOD	<u><u>\$ 11,391,222</u></u>	<u><u>\$ 1,181,755</u></u>	<u><u>\$ 12,572,977</u></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, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Revenues and Support Earned	\$ 186,552	\$ -	\$ 186,552
Contributions	2,234,226	385,423	2,619,649
Investment Income	577,528	-	577,528
Net Assets Released From Restrictions	2,313,022	(2,313,022)	-
<i>TOTAL REVENUES AND OTHER SUPPORT</i>	5,311,328	(1,927,599)	3,383,729
EXPENSES			
Program Services	810,564	-	810,564
General Administration	459,091	-	459,091
Fundraising	175,602	-	175,602
Public Relations	6,975	-	6,975
Special Events	79,820	-	79,820
<i>TOTAL EXPENSES</i>	1,532,052	-	1,532,052
CHANGES IN NET ASSETS FROM OPERATIONS	3,779,276	(1,927,599)	1,851,677
OTHER CHANGES IN NET ASSETS			
Collection Items Purchased	(18,650)	-	(18,650)
<i>TOTAL OTHER CHANGES IN NET ASSETS</i>	(18,650)	-	(18,650)
TOTAL CHANGE IN NET ASSETS	3,760,626	(1,927,599)	1,833,027
NET ASSETS AT BEGINNING OF PERIOD	6,592,489	3,383,868	9,976,357
NET ASSETS AT END OF PERIOD	<u>\$ 10,353,115</u>	<u>\$ 1,456,269</u>	<u>\$ 11,809,384</u>

See accompanying notes and independent auditor's report.

ACADEMY ART MUSEUM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021

	Program Services	General Administration	Fundraising	Special Events	Total Expenses
Operating Expenses					
Advertising	\$ 16,846	\$ 5,086	\$ 1,015	\$ 4,511	\$ 27,458
Artwork Exhibit Expense	9,524	-	-	-	9,524
Auction Expense	130	-	-	120	250
Bank Service Charges	2,997	292	1,647	6,406	11,342
Bad Debt	32,703	-	-	-	32,703
Equipment Rental/Repair	-	7,269	-	-	7,269
Fees-Artist	6,662	-	-	29,675	36,337
Fees-Instructors	58,018	-	-	-	58,018
Fees-Professional	42,043	118,263	1,996	7,960	170,262
Insurance	-	2,734	-	-	2,734
Membership	-	-	21,536	-	21,536
Miscellaneous	160	657	-	-	817
Official Entertainment	1,041	2,719	113	52,591	56,464
Postage	781	4,395	2,167	154	7,497
Printing	351	20,459	5,534	178	26,522
Shipping and Delivery Charges	738	35	-	-	773
Space Rental	-	2,405	-	-	2,405
Subscriptions and Professional Dues	1,927	15,094	-	-	17,021
Supplies and Materials	25,555	7,240	251	165	33,211
Taxes	-	1,325	-	-	1,325
Travel	2,215	2,726	-	-	4,941
Total Operating Expenses	201,691	190,699	34,259	101,760	528,409
Personnel Costs					
Salaries and Wages	248,302	173,743	77,703	24,207	523,955
Payroll Taxes	22,055	15,432	6,902	2,150	46,539
Retirement	7,003	4,900	2,192	683	14,778
Search and Moving Expenses	974	11,592	243	-	12,809
Insurance	1,158	810	362	113	2,443
Benefits	16,020	11,209	5,013	1,562	33,804
Total Personnel Costs	295,512	217,686	92,415	28,715	634,328
Facility Expenses					
Utilities	47,114	15,312	1,242	-	63,668
Maintenance and Supplies	32,130	10,443	847	-	43,420
Personnel Expense	33,300	10,822	878	-	45,000
Insurance	21,146	5,101	414	-	26,661
Service Agreements	8,365	2,719	220	-	11,304
Telephone and Internet	5,174	1,681	136	-	6,991
Total Facility Expenses	147,229	46,078	3,737	-	197,044
Depreciation	199,761	13,834	4,248	-	217,843
TOTAL FUNCTIONAL EXPENSES	\$ 844,193	\$ 468,297	\$ 134,659	\$ 130,475	\$ 1,577,624

See accompanying notes and independent auditor's report.

ACADEMY ART MUSEUM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2020

	Program Services	General Administration	Fundraising	Public Relations	Special Events	Total Expenses
Operating Expenses						
Advertising	\$ 11,678	\$ 6,106	\$ 10,595	\$ 350	\$ 8,696	\$ 37,425
Artwork Exhibit Expense	8,375	-	-	-	-	8,375
Auction Expense	-	-	-	-	2,819	2,819
Bank Service Charges	3,510	475	1,282	-	-	5,267
Bad Debt	-	-	300	-	-	300
Equipment Rental/Repair	-	5,179	4,364	-	-	9,543
Fees-Artist	12,853	-	-	-	-	12,853
Fees-Instructors	56,885	-	-	-	-	56,885
Fees-Professional	74,879	42,327	8,513	1,800	19,885	147,404
Insurance	-	2,734	-	-	-	2,734
Interest	-	27	-	-	-	27
Membership	-	-	20,889	-	-	20,889
Miscellaneous	-	-	-	-	845	845
Official Entertainment	16,531	4,889	3,976	-	13,191	38,587
Postage	78	3,787	1,350	-	375	5,590
Printing	4,789	13,641	6,337	4,825	4,076	33,668
Program Trips Expense	3,426	-	-	-	-	3,426
Shipping and Delivery Charges	488	-	-	-	-	488
Space Rental	5,460	-	-	-	-	5,460
Subscriptions and Professional Dues	2,736	15,111	2,343	-	68	20,258
Supplies and Materials	32,182	-	-	-	-	32,182
Taxes	-	1,180	-	-	-	1,180
Travel	8,790	2,691	-	-	-	11,481
<i>Total Operating Expenses</i>	<u>242,660</u>	<u>98,147</u>	<u>59,949</u>	<u>6,975</u>	<u>49,955</u>	<u>457,686</u>
Personnel Costs						
Salaries and Wages	240,853	257,321	93,689	-	24,918	616,781
Payroll Taxes	19,541	20,878	7,601	-	2,022	50,042
Retirement	7,209	7,702	2,804	-	746	18,461
Insurance	954	1,020	371	-	99	2,444
Benefits	20,109	21,484	7,822	-	2,080	51,495
<i>Total Personnel Costs</i>	<u>288,666</u>	<u>308,405</u>	<u>112,287</u>	<u>-</u>	<u>29,865</u>	<u>739,223</u>
Facility Expenses						
Utilities	40,408	13,133	1,065	-	-	54,606
Maintenance and Supplies	24,961	8,112	658	-	-	33,731
Personnel Expense	33,300	10,822	878	-	-	45,000
Insurance	25,037	5,101	414	-	-	30,552
Service Agreements	7,450	2,421	196	-	-	10,067
Telephone and Internet	5,871	1,908	155	-	-	7,934
<i>Total Facility Expenses</i>	<u>137,027</u>	<u>41,497</u>	<u>3,366</u>	<u>-</u>	<u>-</u>	<u>181,890</u>
Depreciation	<u>142,211</u>	<u>11,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,253</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 810,564</u>	<u>\$ 459,091</u>	<u>\$ 175,602</u>	<u>\$ 6,975</u>	<u>\$ 79,820</u>	<u>\$ 1,532,052</u>

ACADEMY ART MUSEUM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Change In Net Assets	\$ 763,593	\$ 1,833,027
Adjustments To Reconcile Change In Net Assets To Net Cash Provided By Operations		
Depreciation	217,843	153,253
Realized (Gain)/Loss on Sale of Investments	(71,693)	1,516
Unrealized Gain on Investments	(1,004,243)	(448,576)
Stock Donations	(42,717)	(61,870)
(Increase)/Decrease in:		
Pledges & Grants Receivable	405,484	503,146
Program Service Fees Receivable	-	200
Prepaid Expenses	(4,614)	22,386
Increase/(Decrease) in:		
Accounts Payable	(3,465)	(7,620)
Accrued Expenses	(53,865)	14,145
Refundable Advances	15,500	-
Deferred Revenue	33,388	(119,028)
<i>Net Cash Provided by Operating Activities</i>	<u>255,211</u>	<u>1,890,579</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(13,112)	(2,041,662)
Proceeds from Sale of Long-term Investments	820,307	6,611,721
Purchase of Investments	(1,046,747)	(6,203,253)
<i>Net Cash Used by Investing Activities</i>	<u>(239,552)</u>	<u>(1,633,194)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of Endowment Fund Loan	-	(100,000)
<i>Net Cash Used by Financing Activities</i>	<u>-</u>	<u>(100,000)</u>
NET INCREASE IN CASH	15,659	157,385
CASH, AT BEGINNING OF PERIOD	<u>481,677</u>	<u>324,292</u>
CASH, AT END OF PERIOD	<u>\$ 497,336</u>	<u>\$ 481,677</u>
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ -	\$ 27

See accompanying notes and independent auditor's report.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

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 and are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose to achieve the objectives of the Museum.
- *Net Assets with Donor Restrictions* – Net assets subject to donor-imposed stipulations intended to be met either by actions of the Museum and/or the passage of time or for which the donor has stipulated that the principal be maintained in perpetuity. As the restrictions are satisfied net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying financial statements as net assets released from restrictions.

Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as unrestricted.

Contributions and grants to the Museum are recorded as revenue without donor restrictions unless designated by the donor as restricted for a specified purpose of the Museum. Grants are recorded as revenue when received or when conditions of the grant agreement are met. Any income earned from the investment of donor-restricted contributions is considered to be income without donor restrictions unless specified otherwise by the donor. Realized and unrealized gains on investments are recorded as revenue without donor restrictions unless otherwise specified by the donor.

Marketable securities that are received as contributions are sold with the proceeds utilized according to the donor's restrictions, if any.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

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

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.

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, 2021 and 2020.

Grants and other contributions of cash and other assets are reported as donor restricted support if they are received with donor stipulations limiting the use of the donated assets. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified as net assets released from restrictions. Grants are recorded as revenue when received or when the conditions of the grant are met. Contributions received with donor restrictions that are met in the same reporting period are reported as support without donor restriction and as an increase in net assets without donor restriction.

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 \$42,415 and \$61,870 for the years ended August 31, 2021 and 2020 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, 2021 and 2020.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

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

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 the promise to give is received. The Museum distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges receivable 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.

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, 2021 and 2020, the Museum added 62 and 9 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

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

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

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.

Investments

The Museum's investments include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. The Museum's investments are managed by a professional investment management firm. 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.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

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

Endowment - continued

The Board of Trustees of the Museum has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Museum classifies as net assets with donor restrictions (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. The Museum would consider the fund to be underwater if the fair value of the fund is less than the sum of 1) the original value of the initial and subsequent gifts donated to the fund and 2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the applicable donor gift instrument. The fund is not currently underwater.

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%, 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 an investment 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.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

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

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, 2021 and 2020, 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, 2018.

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, 2021 and 2020 and during the years then ended, the balances in one of the banks exceeded the FDIC coverage level.

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, 2021 and 2020 are as follows:

	2021	2020
Receivable in less than one year	\$ 229,520	\$ 435,639
Receivable in one to five years	91,226	293,187
Total unconditional promises to give	320,746	728,826
Discount to net present value	(2,128)	(4,724)
Net contributions receivable	\$ 318,618	\$ 724,102

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

Note 2. 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 rates at August 31, 2021 and 2020 ranged from 1.89% to 1.12%

At August 31, 2021 and 2020, approximately 40% and 26% 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 \$32,703 and \$300 uncollectible pledges written off during the years ended August 31, 2021 and 2020, respectively.

Note 3. PROPERTY AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Land and Improvements	\$ 164,461	\$ 164,461
Building and Improvements	6,541,240	6,541,240
Equipment and Furniture	<u>809,765</u>	<u>796,653</u>
Sub-Total	7,515,466	7,502,354
Less Accumulated Depreciation	<u>(3,257,014)</u>	<u>(3,039,171)</u>
 Net Property and Equipment	 <u>\$ 4,258,452</u>	 <u>\$ 4,463,183</u>

Depreciation expense for the years ended August 31, 2021 and 2020 was \$217,843 and \$153,253, 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.

	<u>2021</u>		<u>2020</u>	
	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>
Cash	\$ 2,940	\$ 2,940	\$ 2,940	\$ 2,940
Fixed Income	2,868,893	2,803,756	2,849,440	2,771,035
Mutual Funds	2,698,813	1,785,585	1,795,919	1,486,450
Equity Securities	<u>2,016,322</u>	<u>780,998</u>	<u>1,593,576</u>	<u>779,338</u>
Total	<u>\$ 7,586,968</u>	<u>\$ 5,373,279</u>	<u>\$ 6,241,875</u>	<u>\$ 5,039,763</u>

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

Note 4. INVESTMENTS - continued

Endowment Fund

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

2021

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 197,850	\$ 197,850
Board-Designated Endowment Funds	<u>7,284,803</u>	<u>-</u>	<u>7,284,803</u>
Total	<u>\$ 7,284,803</u>	<u>\$ 197,850</u>	<u>\$ 7,482,653</u>

2020

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 197,850	\$ 197,850
Board-Designated Endowment Funds	<u>6,140,085</u>	<u>-</u>	<u>6,140,085</u>
Total	<u>\$ 6,140,085</u>	<u>\$ 197,850</u>	<u>\$ 6,337,935</u>

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

Note 4. INVESTMENTS - continued

Endowment Fund - continued

The Endowment Fund activity for the years ending August 31, 2021 and 2020 is summarized as follows:

	<u>2021</u>		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance, Beginning	\$ 6,140,085	\$ 197,850	\$ 6,337,935
Contributions	-	-	-
Interest & Dividends	51,771	-	51,771
Unrealized Gain/(Loss)	1,005,406	-	1,005,406
Investment Gain/(Loss)	113,775	-	113,775
Distributions	-	-	-
Administrative Expenses	(26,234)	-	(26,234)
Balance, Ending	<u>\$ 7,284,803</u>	<u>\$ 197,850</u>	<u>\$ 7,482,653</u>

	<u>2020</u>		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance, Beginning	\$ 4,716,849	\$ 197,850	\$ 4,914,699
Contributions	1,205,000	-	1,205,000
Interest & Dividends	134,941	-	134,941
Unrealized Gain/(Loss)	454,838	-	454,838
Investment Gain/(Loss)	(1,963)	-	(1,963)
Distributions	(350,213)	-	(350,213)
Administrative Expenses	(19,367)	-	(19,367)
Balance, Ending	<u>\$ 6,140,085</u>	<u>\$ 197,850</u>	<u>\$ 6,337,935</u>

Note 5. FAIR VALUE MEASUREMENTS

No income distributions were made from the Mid-Shore Community Foundation, Inc. ("MSCF") fund during the years ended August 31, 2021 and 2020. The fair market value of the MSCF fund at August 31, 2021 and 2020, 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.

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

Note 5. FAIR VALUE MEASUREMENTS - continued

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

Fair value of assets and liabilities measured on a recurring basis at August 31, 2021 and 2020 are as follows:

Fair Value Measurements at Reported Date Using:

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Fair Value	(Level 1)	(Level 2)	(Level 3)
<u>August 31, 2021</u>			
Money Market Funds	\$ 292,918	\$ 292,918	\$ -
Domestic Common Stocks	1,788,550	1,788,550	-
Foreign Common Stocks	152,871	152,871	-
Mutual Funds	2,698,813	2,698,813	-
Bond Funds	2,578,915	2,578,915	-
MSCF Investment	74,901	74,901	-
Total	<u>\$ 7,586,968</u>	<u>\$ 7,586,968</u>	<u>\$ -</u>
<u>August 31, 2020</u>			
Money Market Funds	\$ 400,390	\$ 400,390	\$ -
Domestic Common Stocks	1,382,360	1,382,360	-
Foreign Common Stocks	152,608	152,608	-
Mutual Funds	1,795,919	1,795,919	-
Bond Funds	2,451,990	2,451,990	-
MSCF Investment	58,608	58,608	-
Total	<u>\$ 6,241,875</u>	<u>\$ 6,241,875</u>	<u>\$ -</u>

There were no investments deemed by management to be classified as level 2 or level 3 investments at August 31, 2021 and 2020, respectively.

Note 6. REFUNDABLE ADVANCES

As of August 31, 2021 and 2020, the Museum had \$15,500 and \$0 in refundable advances, respectively. These advances consist of sponsorships for events to be held in the next fiscal year that would be refundable if the event does not take place.

See independent auditor's report

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

Note 7. 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 3.75% at August 31, 2021 and 2020. The line of credit had no outstanding balance as of August 31, 2021 and 2020.

Note 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of donations received to fund certain donor stipulated purposes as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Art Acquisitions	\$ 5,944	\$ 1,544
Internship	23,000	3,000
Adult Classes	-	732
ArtReach	-	10,973
PPP Loan	-	144,600
Capital Campaign	<u>954,961</u>	<u>1,097,570</u>
	983,905	1,258,419
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
Endowment	<u>197,850</u>	<u>197,850</u>
Total Net Assets with Donor Restrictions	<u>\$1,181,755</u>	<u>\$1,456,269</u>

Note 9. 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 \$14,778 and \$18,461, respectively, at August 31, 2021 and 2020.

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 10. ADVERTISING

Advertising costs are expensed as incurred. Advertising expense for the years ended August 31, 2021 and 2020 was \$27,458 and \$37,425, respectively.

Note 11. RELATED PARTY TRANSACTIONS

Members of the Board of Trustees provide contributions to support the Museum's programs. During the year ended August 31, 2021 and 2020, contributions from Trustees totaled \$268,725 and \$234,988, respectively.

ACADEMY ART MUSEUM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021 and 2020

Note 12. INTENTIONS TO GIVE

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

1. The Museum was named as a revocable beneficiary of a charitable foundation or 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 or individual retirement accounts.

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 \$3,434,000 at both August 31, 2021 and 2020.

Note 13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following as of August 31:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 228,166	\$ 404,999
Short-Term Investments	2,940	2,940
Long-Term Investments	<u>7,386,178</u>	<u>6,041,085</u>
Total	<u>\$ 7,617,284</u>	<u>\$ 6,449,024</u>

As of August 31, 2021 the board has designated \$6,140,085 for endowment and \$200,000 for the capital campaign. Although the Museum does not intend to spend these board-designated funds, these amounts could be made available if necessary.

As part of the Museum's liquidity management, it invests cash in excess of daily requirements in short term investments and interest-bearing savings accounts.

Note 14. SUBSEQUENT EVENTS

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through February 3, 2022, the date the financial statements were available to be issued.

ACADEMY ART MUSEUM, INC.
SCHEDULE OF REVENUES AND SUPPORT
FOR THE YEAR ENDED AUGUST 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total 2021
REVENUES AND SUPPORT EARNED			
Admissions	\$ 5,845	\$ -	\$ 5,845
Sales	49,881	-	49,881
Rentals	6,000	-	6,000
Tuition	84,421	-	84,421
<i>TOTAL REVENUES AND SUPPORT EARNED</i>	<u>146,147</u>	<u>-</u>	<u>146,147</u>
CONTRIBUTED SUPPORT			
Individuals	564,687	41,254	605,941
Corporations	1,000	13,000	14,000
Foundations	14,000	25,000	39,000
Government Grants	318,519	-	318,519
Memberships	67,774	-	67,774
Special Events	10,600	-	10,600
Assets Released from Restrictions	342,795	(342,795)	-
<i>TOTAL CONTRIBUTED SUPPORT</i>	<u>1,319,375</u>	<u>(263,541)</u>	<u>1,055,834</u>
INVESTMENT INCOME			
Interest and Dividends	95,588	-	95,588
Realized Gain on Sale of Investments	71,693	-	71,693
Unrealized Gain on Investments	1,004,243	-	1,004,243
Investment Fees	(26,288)	-	(26,288)
<i>TOTAL INVESTMENT INCOME</i>	<u>1,145,236</u>	<u>-</u>	<u>1,145,236</u>
 TOTAL REVENUES AND SUPPORT	 <u>\$ 2,610,758</u>	 <u>\$ (263,541)</u>	 <u>\$ 2,347,217</u>

See independent auditor's report.

ACADEMY ART MUSEUM, INC.
SCHEDULE OF REVENUES AND SUPPORT
FOR THE YEAR ENDED AUGUST 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2020</u>
REVENUES AND SUPPORT EARNED			
Admissions	\$ 48,657	\$ -	\$ 48,657
Sales	5,012	-	5,012
Rentals	213	-	213
Miscellaneous	41	-	41
Tuition	132,629	-	132,629
<i>TOTAL REVENUES AND SUPPORT EARNED</i>	186,552	-	186,552
CONTRIBUTED SUPPORT			
Individuals	1,917,189	208,549	2,125,738
Corporations	15,750	7,274	23,024
Foundations	16,500	25,000	41,500
Government Grants	162,454	144,600	307,054
Memberships	64,523	-	64,523
Special Events	57,810	-	57,810
Assets Released from Restrictions	2,313,022	(2,313,022)	-
<i>TOTAL CONTRIBUTED SUPPORT</i>	4,547,248	(1,927,599)	2,619,649
INVESTMENT INCOME			
Interest and Dividends	150,021	-	150,021
Realized Gain on Sale of Investments	(1,516)	-	(1,516)
Unrealized Loss on Investments	448,576	-	448,576
Investment Fees	(19,553)	-	(19,553)
<i>TOTAL INVESTMENT INCOME</i>	577,528	-	577,528
TOTAL REVENUES AND SUPPORT	<u>\$ 5,311,328</u>	<u>\$ (1,927,599)</u>	<u>\$ 3,383,729</u>

See independent auditor's report.