

**MARYLAND AFRICAN AMERICAN  
MUSEUM CORPORATION**

**Financial Statements  
and  
Independent Auditor's Report**

**Years Ended June 30, 2014 and 2013**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Maryland African American Museum Corporation  
Baltimore, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Maryland African American Museum Corporation which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows and the statement of functional expenses (with comparative totals for 2013) 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maryland African American Museum Corporation as of June 30, 2014 and 2013, 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.



Abrams, Foster, Nole & Williams, P.A.  
Certified Public Accountants  
Baltimore, Maryland

November 17, 2014

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Statements of Financial Position**  
**June 30, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 742,401	\$ 1,095,918
Pledges receivable	-	34,916
Other receivables	85,844	64,175
Due from unrestricted fund	-	800,000
Gift Shop inventory	11,568	8,243
Prepaid expenses	15,210	4,350
Total current assets	855,023	2,007,602
<b>Property and Equipment, net</b>	1,457,877	1,624,931
<b>Non Current Assets</b>		
Investments	6,618,027	5,146,051
Restricted cash	2,292,364	2,280,790
Total non current assets	8,910,391	7,426,841
<b>Total Assets</b>	\$ 11,223,291	\$ 11,059,374
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 154,462	\$ 241,991
Accrued payroll expenses	130,006	105,046
Accrued expenses	33,000	33,000
Line of credit	749,313	750,000
Due to endowment fund	-	800,000
Total current liabilities	1,066,781	1,930,037
<b>Net Assets</b>		
Unrestricted net assets	(598,123)	(216,845)
Temporarily restricted net assets	2,105,773	875,855
Permanently restricted net assets	8,648,860	8,470,327
Total net assets	10,156,510	9,129,337
<b>Total Liabilities and Net Assets</b>	\$ 11,223,291	\$ 11,059,374

“See Accompanying Notes”

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2014**

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue and Support</b>				
Grants	\$ 2,477,397	\$ 97,200	\$ -	\$ 2,574,597
Contributions	90,162	468,370	178,533	737,065
Admissions	178,385	5,000	-	183,385
Membership dues	65,156	-	-	65,156
Rental income	92,696	-	-	92,696
Investment income	3,848	85,886	-	89,734
Realized gains on endowments	-	426,126	-	426,126
Unrealized gains on endowments	-	643,701	-	643,701
Other income	76,016	-	-	76,016
Net assets released from restrictions	496,365	(496,365)	-	-
<b>Total revenue and support</b>	<b>3,480,025</b>	<b>1,229,918</b>	<b>178,533</b>	<b>4,888,476</b>
<b>Expenses</b>				
Collections and exhibitions	895,726	-	-	895,726
Education and public programs	472,174	-	-	472,174
External affairs	636,758	-	-	636,758
Management, building and security	1,856,645	-	-	1,856,645
<b>Total expenses</b>	<b>3,861,303</b>	<b>-</b>	<b>-</b>	<b>3,861,303</b>
<b>Increase (decrease) in net assets</b>	<b>(381,278)</b>	<b>1,229,918</b>	<b>178,533</b>	<b>1,027,173</b>
Net assets/(deficit) beginning of year	(216,845)	875,855	8,470,327	9,129,337
<b>Net Assets/(deficit) End of Year</b>	<b>\$ (598,123)</b>	<b>\$ 2,105,773</b>	<b>\$ 8,648,860</b>	<b>\$ 10,156,510</b>

“See Accompanying Notes”

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2013**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue and Support</b>				
Grants	\$ 2,430,000	\$ 30,000	\$ -	\$ 2,460,000
Contributions	219,827	21,195	315,552	556,574
Admissions	100,568	-	-	100,568
Membership dues	61,146	-	-	61,146
Rental income	90,554	-	-	90,554
Investment income	4,126	79,099	-	83,225
Realized gains on endowments	-	287,919	-	287,919
Unrealized gains on endowments	-	317,359	-	317,359
Net assets released from restrictions	35,063	(35,063)	-	-
Total revenue and support	2,941,284	700,509	315,552	3,957,345
<b>Expenses</b>				
Collections and exhibitions	589,338	-	-	589,338
Education and public programs	371,906	-	-	371,906
External affairs	267,830	-	-	267,830
Management, building and security	1,729,313	-	-	1,729,313
Total expenses	2,958,387	-	-	2,958,387
<b>Increase (decrease) in net assets</b>	(17,103)	700,509	315,552	998,958
Net assets beginning of year	(199,742)	175,346	8,154,775	8,130,379
<b>Net Assets/(deficit) End of Year</b>	<u>\$ (216,845)</u>	<u>\$ 875,855</u>	<u>\$ 8,470,327</u>	<u>\$ 9,129,337</u>

“See Accompanying Notes”

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,027,173	\$ 998,958
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	255,316	230,111
Unrealized (gain) loss on investments	(643,701)	(317,359)
Changes in operating assets and liabilities:		
(Increase) decrease in assets		
Pledges receivable, net	34,916	-
Other receivables	(21,669)	(20,909)
Deposits	-	1,500
Inventory	(3,325)	1,035
Prepaid expenses	(10,860)	7,276
Accrued payroll expenses	24,960	(11,063)
Accrued expenses	-	2,560
Accounts payable	(87,529)	(48,301)
Deferred revenue	-	(21,764)
Total adjustments	<u>(451,892)</u>	<u>(176,914)</u>
Net cash provided by operating activities	<u>575,281</u>	<u>822,044</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of fixed assets	(88,262)	(126,618)
Purchase of investments	(1,827,830)	(1,709,066)
Proceeds from sale of investments	999,555	1,349,567
Changes in restricted cash	(11,574)	(7,517)
Net cash (used) in investing activities	<u>(928,111)</u>	<u>(493,634)</u>
<b>Cash Flow from Financing Activities</b>		
Principal payments on line of credit	(687)	-
Net cash (used) in financing activities	<u>(687)</u>	<u>-</u>
(Decrease) increase in cash and cash equivalents	(353,517)	328,410
Cash and cash equivalents, beginning of year	1,095,918	767,508
Cash and Cash Equivalents, End of Year	<u>\$ 742,401</u>	<u>\$ 1,095,918</u>
<b>Supplemental disclosure</b>		
Cash paid for interest	<u>\$ 23,017</u>	<u>\$ 23,465</u>

“See Accompanying Notes”



**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**

**Statement of Functional Expenses**

**Year Ended June 30, 2014**

**(With Comparative Totals for 2013)**

	COLLECTIONS AND EXHIBITS	EDUCATION & PUBLIC PROGRAMS	EXTERNAL AFFAIRS	MANAGEMENT, BUILDING & SECURITY	TOTAL 2014	COMPARATIVE TOTALS 2013
Salaries & wages	\$ 193,554	\$ 180,506	\$ 206,474	\$ 523,539	\$ 1,104,073	\$ 949,675
Fringe benefits	63,253	81,132	69,328	228,778	442,491	429,412
Contractual employees	30,516	40,396	24,666	19,055	114,633	136,129
Contributions	-	-	50	-	50	-
Communications	585	270	1,995	23,543	26,393	24,166
Travel	9,683	8,010	3,605	1,222	22,520	8,698
Fixed charges	6,247	6,378	4,096	19,584	36,305	34,425
Interest expense	-	-	-	23,017	23,017	23,465
Materials and supplies	16,399	10,407	11,455	38,491	76,752	31,901
Equipment	984	1,616	846	6,248	9,694	23,276
Vehicle operations & maintenance	-	-	-	1,579	1,579	2,513
Contractual services	49,446	49,735	226,004	550,283	875,468	637,030
Programs/workshops	11,576	33,950	6,192	-	51,718	11,990
Outside services	4,601	29,394	80,662	4,659	119,316	90,474
Exhibits	314,793	464	1,385	-	316,642	49,785
Utilities	-	-	-	347,545	347,545	275,337
Bad debts	-	29,916	-	7,875	37,791	-
Depreciation expense	194,089	-	-	61,227	255,316	230,111
<b>Total expenses</b>	<b>\$ 895,726</b>	<b>\$ 472,174</b>	<b>\$ 636,758</b>	<b>\$ 1,856,645</b>	<b>\$ 3,861,303</b>	<b>\$ 2,958,387</b>

"See Accompanying Notes"

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Nature of Entity

The Maryland African American Museum Corporation (the Corporation), which is a component unit of the State of Maryland (State), was created by the Maryland General Assembly (Senate Bill 716) in 1998 to plan, develop and manage a Maryland Museum of African American History and Culture in Baltimore City, in cooperation with and with the active support of the Mayor and City Council of Baltimore, affected State agencies, and other public and private institutions. The Corporation is a public instrumentality of the State and an independent unit in the Executive Branch of the State Government.

In 2002, the Corporation was awarded a \$5,000,000 endowment grant from The Reginald F. Lewis Foundation. The grant was payable over a period of five years. The final payment was received in June 2006. As a condition of the grant and after the Maryland Board of Public Works approval, the museum was renamed the Reginald F. Lewis Museum of Maryland African American History & Culture.

B. Federal Income Tax

The Corporation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is considered a quasi-government organization under the State of Maryland. Accordingly, there are no provisions for income taxes within the accompanying financial statements and the Corporation has not taken any questionable tax positions.

C. Basis of Accounting

The financial statements of the Corporation are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Basis of Presentation

The financial statement presentation follows the guidance of Financial Accounting Standards Board Accounting Standards Codification (ASC); ASC-958-205, *Financial Statements of Not-for-Profit Programs*. Under ASC-958-205, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations and are further delineated into the following categories:

- Operating represents the portion of net assets available for support of operations.
- Management reserved is for amounts designated by management to provide for future capital improvements.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to the stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Corporation's action.

E. Promises to Give

Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. 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 contingencies as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

G. Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks including demand deposits, certificates of deposit, and money market accounts with a maturity of less than 90 days.

H. Pledges Receivable

Contributions to be received after one year are discounted using discount rates ranging from 2 – 4 percent. No allowance for uncollectible pledges has been recorded for the year ended June 30, 2013 based on management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity. There were no pledges receivable at June 30, 2014.

I. Capital Assets

Capital assets are stated at cost or, if donated, at the approximate fair value at the date of donation. The Corporation has a capitalization policy of \$1,000. Depreciation is computed using the straight-line method and the following useful lives: software, 3 years; office equipment, 3-5 years; furniture, 5-7 years; vehicles, 5 years; and building improvements, 5-15 years.

The Corporation owns diverse collections of historical and artistic artifacts. The Corporation does not capitalize these collections as they meet the criteria for: (1) the Corporation's mission in acquiring these collections is for the purpose of preservation, (2) education, (3) research, and (4) exhibition. The Corporation secures and preserves all collections to adequately preserve African American history. All amounts received from the sale of artifacts and collections are used only for the purchase of new artifacts and collections.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

J. Line of Credit

On May 2, 2008, the Corporation entered into a \$1,000,000 line of credit with a local bank with a maturity date of August 2, 2012. The line of credit was extended on December 2, 2012 to February 28, 2014, with all terms and conditions remaining in effect. On February 28, 2014, the line of credit was further extended to December 2, 2014, again with all terms and conditions remaining in place. The line is secured by a certificate of deposit at the local bank and carries an interest rate of 3%. Collateral of \$1,000,000 is held on a Certificate of Deposit Account Registry Service (CDARS) account. Borrowings totaled \$749,313 and \$750,000 at June 30, 2014 and 2013, respectively.

K. Grants

The Governor of the State of Maryland is authorized under the Maryland African American Museum Corporation Act (Article 41, title 20, subtitle 1 of the Annotated Code of Maryland) to include a general fund grant to the Corporation in the Governor's annual budget submission. The Governor has committed to propose each year, under a Memorandum of Understanding, a state grant to the Corporation equal to 50 percent of the Corporation's operating budget, as approved by the Maryland Department of Budget and Management (DBM).

Under the Memorandum of Understanding, if the Corporation does not expend or encumber the entire amount of the State Grant along with the Corporation's matching funds for costs of operations incurred in the current fiscal year, the Corporation shall return the amount of the unexpended, unencumbered State Grant to the general fund. As of June 30, 2014 and 2013, there was no balance due to the State of Maryland. The Corporation met its matching requirement for the year ended June 30, 2014 and did not meet its matching requirement for the year ended June 30, 2013 under the terms of the Memorandum of Understanding.

L. Use of Restricted Assets

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Corporation's policy is to first charge the expense to restricted resources and then to unrestricted resources.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

M. Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illness of employees; and natural disasters. The Corporation participates in the State's various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and antitrust liabilities and certain employee health benefits.

The State allocates the cost of providing claims servicing and claim payments by charging a "premium" to the Corporation based on a percentage of the Corporation's estimated current year payroll or based on the average loss experienced by the Corporation. This charge considers recent trends in actual claims experienced by the State as a whole and makes provisions for catastrophic losses.

There have been no significant reductions in insurance coverage from the prior year. Additionally, settlements have not exceeded insurance coverage for the past three fiscal years.

N. Financial Instruments with Concentration of Credit Risk

The Corporation maintains its cash accounts with a commercial bank as well as brokerage firms. The accounts at the commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) for a limitless amount for all non-interest bearing accounts and up to a maximum of \$250,000 for interest bearing accounts through December 31, 2012 and a maximum for all accounts per depositor category of \$250,000 beginning January 1, 2013. The commercial bank has pledged collateral through the Federal Reserve Bank on behalf of the Corporation to insure all deposit balances in excess of the \$250,000 FDIC limit. Cash accounts at the brokerage firm are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 and the securities are insured up to \$500,000 for each brokerage account. The SIPC insurance does not protect against market losses on investments. The risk is managed by maintaining all deposits in high quality financial institutions. The Corporation has not experienced any losses in such accounts.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

O. Reporting for Impairment of Capital Assets and Insurance Recoveries

The Corporation received no insurance recoveries for the years ended June 30, 2014 and 2013. There were no impairments of capital assets.

P. Commitments

The Corporation entered a month to month agreement with Class Act Café and Catering, Inc. to operate the café within the Museum and to provide catering for events held at the Museum. The commissions were calculated on a percentage of net café revenues and a percentage of gross catering revenues as defined in the agreement. Commission revenue was \$29,097 and \$26,622, for the years ended June 30, 2014 and 2013, respectively.

**2. CASH DEPOSIT BALANCES**

The following are the carrying value and bank balances of deposits at June 30, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Carrying Amounts</u>	<u>Bank Amounts</u>	<u>Carrying Amounts</u>	<u>Bank Amounts</u>
Demand deposits	\$ 18,259	\$ 61,934	\$ 180,288	\$ 301,014
Certificate of deposits	2,292,364	2,292,364	2,280,790	2,280,790
Money market accounts	<u>723,442</u>	<u>720,879</u>	<u>914,630</u>	<u>894,398</u>
Total	<u>\$ 3,034,065</u>	<u>\$ 3,075,177</u>	<u>\$ 3,375,708</u>	<u>\$ 3,476,202</u>

The bank amount is the statement balance at June 30 that does not include in-transit transactions. The aforementioned deposits do not include cash on hand of \$700 and \$1,000 at June 30, 2014 and 2013, respectively.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**2. RESTRICTED CASH**

The Corporation has cash that is maintained in separate bank accounts and restricted by donors as permanent endowments as follows:

	<u>2014</u>	<u>2013</u>
Operating endowments	\$ 344,496	\$ 342,925
Education endowments	<u>1,947,868</u>	<u>1,937,865</u>
Total	<u>\$2,292,364</u>	<u>\$ 2,280,790</u>

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1

Quoted prices in active markets for identical assets or liabilities.

Level 2

Observable inputs based on quoted prices in non-active markets or in active markets for similar assets or liabilities. Inputs other than quoted prices that are observable, or inputs that are not directly observable, but are corroborated by observable market data.

Level 3

Unobservable inputs that are supported by little or no market activity and that are significant to the measurement of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying combined statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.



**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

Domestic Equity Securities (Stocks): Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the closing net asset value (NAV) of shares held at fiscal year end. If the mutual fund makes its net asset values publicly available daily to set the price for purchases and redemptions the following day, the mutual fund is categorized within level 1. If the Corporation cannot redeem its investment at net asset value per share at fiscal year end but the investment is redeemable within 90 days notice or less, the mutual fund is categorized within Level 2. If the Corporation must wait more than 90 days to redeem its investment, the mutual fund is categorized within Level 3.

Corporation and other bonds: The investment grade corporate bonds held by the Corporation generally do not trade in active markets on the measurement date. Therefore, corporation and other bonds are valued using inputs including yields currently available on comparable securities of issuers with similar credit ratings, recent market price quotations (where observable), bond spreads, and fundamental data relating to the issuer and is categorized within Level 2.

Fair Value of Financial Instruments

The following table presents the Corporation's fair value measurements of assets recognized in the accompanying combined statements of financial position that are measured at fair value on a recurring basis and the level within the FASB ASC fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013:

**FAIR VALUE MEASUREMENTS USING:**

Description	2014 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	\$ 1,289,421	\$ 1,289,421	\$ -	\$ -
Stocks	3,973,208	3,973,208	-	-
Corporate and Other Bonds	1,355,398	-	1,355,398	-
Total	<u>\$ 6,618,027</u>	<u>\$ 5,262,629</u>	<u>\$ 1,355,398</u>	<u>\$ -</u>

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**FAIR VALUE MEASUREMENTS USING:**

Description	2013 Total	Quoted Prices in	Significant Other	Significant
		Active Markets for Identical Assets (Level 1)	observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and Cash Equivalents	\$ 45,003	\$ 45,003	\$ -	\$ -
Mutual Funds	1,471,800	1,471,800	-	-
Stocks	2,129,431	2,129,431	-	-
Foreign Assets	179,102	179,102	-	-
Corporate and Other Bonds	1,320,715	-	1,320,715	-
Total	<u>\$ 5,146,051</u>	<u>\$ 3,825,336</u>	<u>\$ 1,320,715</u>	<u>\$ -</u>

For the period from July 1, 2013, through June 30, 2014, the application of the valuation techniques applied to similar assets and liabilities has been consistent.

**5. INVESTMENTS**

Investments are presented at fair value and are composed of the following at June 30, 2014 and 2013.

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 1,289,421	\$ 1,289,421	\$ 45,003	\$ 45,003
Mututal funds	-	-	953,638	1,471,800
Corporate bonds	1,388,141	1,355,398	1,388,141	1,320,715
Stocks	2,801,734	3,973,208	1,509,533	2,129,431
Foreign asstes	-	-	184,130	179,102
Total	<u>\$ 5,479,296</u>	<u>\$ 6,618,027</u>	<u>\$ 4,080,445</u>	<u>\$ 5,146,051</u>

**6. PLEDGES**

For the year ended June 30, 2014, a determination was made by management that pledges receivable was uncollectible and therefore a bad debt expense of \$34,916 was recorded.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
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**6. PLEDGES (Continued)**

Pledges receivable consisted of the following as of June 30, 2013:

Contributions to be received in less than one year	\$ 37,500
Contributions to be received in 1-5 years	-
	<u>37,500</u>
Less unamortized discount	<u>(2,584)</u>
Total	<u>\$ 34,916</u>

**7. CAPITAL ASSETS**

Capital assets consist of the following at June 30, 2014:

<b>Capital Assets</b>	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Disposals/ Transfers</b>	<b>Balance June 30, 2014</b>
Equipment	\$ 286,407	\$ 202,921	\$ 48,923	\$ 440,405
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	-	15,405
Computer software	148,087	-	148,087	-
Permanent exhibit	2,908,991	-	-	2,908,991
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	286,307	-	-	286,307
Total	<u>3,755,158</u>	<u>202,921</u>	<u>197,010</u>	<u>3,761,069</u>
<b>Accumulated depreciation</b>				
Equipment	283,019	29,970	45,136	267,853
Furniture	88,891	627	-	89,518
Vehicles	15,405	-	-	15,405
Computer software	37,215	-	37,215	-
Permanent exhibit	1,548,219	194,088	-	1,742,307
Gift shop furniture and fixtures	15,449	3,644	-	19,093
Building improvements	142,029	26,987	-	169,016
Total	<u>2,130,227</u>	<u>255,316</u>	<u>82,351</u>	<u>2,303,192</u>
<b>Capital Assets, net</b>	<u>\$ 1,624,931</u>	<u>\$ (52,395)</u>	<u>\$ 114,659</u>	<u>\$ 1,457,877</u>

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
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**7. CAPITAL ASSETS (Continued)**

Capital assets consist of the following at June 30, 2013:

<b>Capital Assets</b>	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Disposals/ Transfers</b>	<b>Balance June 30, 2013</b>
Equipment	\$ 282,694	\$ 3,713	\$ -	\$ 286,407
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	-	15,405
Computer software	33,428	114,659	-	148,087
Permanent exhibit	2,901,541	7,450	-	2,908,991
Gift shop F&F	19,440	796	-	20,236
Building improvements	286,307	-	-	286,307
Total	<u>3,628,540</u>	<u>126,618</u>	<u>-</u>	<u>3,755,158</u>
<b>Accumulated depreciation</b>				
Equipment	282,694	325	-	283,019
Furniture	88,264	627	-	88,891
Vehicles	15,405	-	-	15,405
Computer software	33,428	3,787	-	37,215
Permanent exhibit	1,354,791	193,428	-	1,548,219
Gift shop F&F	12,137	3,312	-	15,449
Building improvements	113,397	28,632	-	142,029
Total	<u>1,900,116</u>	<u>230,111</u>	<u>-</u>	<u>2,130,227</u>
<b>Capital Assets, net</b>	<u>\$ 1,728,424</u>	<u>\$(103,493)</u>	<u>\$ -</u>	<u>\$ 1,624,931</u>

**8. RELATED PARTY TRANSACTIONS**

The museum building is owned by the State of Maryland and operated by the Corporation under a memorandum of understanding. Land for the museum is leased from the City of Baltimore (see Note 9).

The employees of the Corporation are employees of the State of Maryland.

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**8. RELATED PARTY TRANSACTIONS (Continued)**

Therefore, the Central Payroll Bureau of the State of Maryland handles all payroll issues for the Corporation including processing paychecks, payroll deductions, reporting, and payment of all related payroll taxes and benefits. The Corporation reimburses the State for all salaries and related benefit costs. As of June 30, 2014 and 2013, the Corporation owed \$58,087 and \$44,448, respectively, to the State of Maryland.

**9. OPERATING LEASES**

The Corporation has entered into a land lease agreement with the City of Baltimore. As the building of a museum in Baltimore City will support the City's efforts to expand tourism beyond the Inner Harbor, the Corporation asked the City of Baltimore to match the State's commitment to building a museum by leasing the land for \$1 per year for 98 years. Under the terms of the Land Disposition Lease Agreement, the property can only be used as a museum. In the event of any default, the land would revert back to the City and the building to the State of Maryland.

During fiscal years 2014 and 2013, the Corporation had operating lease agreements for various pieces of office equipment. Rental expense was \$19,875 and \$23,494 for the years ended June 30, 2014 and 2013, respectively.

Future minimum lease payments under operating leases with lease terms of one year or more for the year ended June 30, 2014 are as follows:

2015	\$ 14,944
2016	9,480
2017	5,113
2018	786
Total	<u>\$ 30,323</u>

**10. RESTRICTED ENDOWMENT LOAN**

The Board approved on May 13, 2010 a loan not to exceed \$1,000,000 of permanently restricted endowment investment funds to be released to the unrestricted fund. The proceeds were used for principal payment on the line of credit and operating expenses.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
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**10. RESTRICTED ENDOWMENT LOAN (Continued)**

With the approval of the endowment funders, The Reginald F. Lewis Foundation and the National Endowment for Humanities, terms of the loan's repayment includes the satisfaction of the unpaid balance by June 30, 2015.

**11. ENDOWMENT NET ASSETS**

The Corporation's endowment consists of individual pledges established for a variety of purposes and is composed of donor-restricted endowment funds. The endowment net assets may include endowed unconditional promises to give, which are recognized in the year the commitment is received. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Directors of the Corporation 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 Corporation 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 Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Corporation 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 resources of the Corporation and (7) the Corporation's investment policies.

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**11. ENDOWMENT NET ASSETS (Continued)**

**Corporation's Spending Policy**

The current policy is to distribute on an annual basis an amount equal to 5 percent of the average market value of the endowment for the previous quarter.

The changes in endowment net assets are illustrated below, which are maintained in the Permanently Restricted Fund and the Temporarily Restricted Fund.

	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net Assets, July 1, 2013</b>	\$ 875,855	\$ 8,470,327	\$ 9,346,182
Investment return:			
Investment income	85,886	-	85,886
Realized/Unrealized gains on endowment	1,069,827	-	1,069,827
Subtotal	2,031,568	8,470,327	10,501,895
Fees	(44,467)	-	(44,467)
Contributions	615,037	178,533	793,570
Net assets released	(496,365)	-	(496,365)
<b>Endowment Net Assets, June 30, 2014</b>	<b>\$ 2,105,773</b>	<b>\$ 8,648,860</b>	<b>\$ 10,754,633</b>

	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net Assets, July 1, 2012</b>	\$ 175,346	\$ 8,154,775	\$ 8,330,121
Investment return:			
Investment income	118,304	-	118,304
Realized/Unrealized gains on endowment	605,278	-	605,278
Subtotal	898,928	8,154,775	9,053,703
Fees	(39,205)	-	(39,205)
Contributions	51,195	315,552	366,747
Net assets released	(35,063)	-	(35,063)
<b>Endowment Net Assets, June 30, 2013</b>	<b>\$ 875,855</b>	<b>\$ 8,470,327</b>	<b>\$ 9,346,182</b>

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
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**12. RESTRICTIONS ON NET ASSETS**

Net assets at June 30, 2014 and 2013 are restricted for the following purposes:

	<u>2014</u>	<u>2013</u>
<b><u>Temporarily Restricted:</u></b>		
Education	\$ 1,602,868	\$ 709,680
Marketing	40,856	-
Museum operation	367,732	129,933
Development	71,507	19,687
Acquisition of collections and exhibits	<u>22,810</u>	<u>16,555</u>
Total	<u>\$ 2,105,773</u>	<u>\$ 875,855</u>
<b><u>Permanently Restricted:</u></b>		
Education	\$ 6,332,626	\$ 6,332,626
Museum operations	<u>2,316,234</u>	<u>2,137,701</u>
Total	<u>\$ 8,648,860</u>	<u>\$ 8,470,327</u>

The board approved portion of permanently restricted earnings is available for use until June 30, 2015.

**13. RETIREMENT PLANS**

The employees of the Corporation are covered by the State Retirement and Pension System of Maryland (the System). The State Retirement Agency (the Agency) is the administrator of the System, a cost sharing multiple-employee retirement system. The System was established by the State Personnel and Pension Articles 73B of the Annotated Code of Maryland and provides retirement allowances to System members and beneficiaries. Responsibility for administration and operation of the System is vested with a Board of Trustees (Trustees). The System issues a publicly-available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202 or by calling (800) 492-5909.



**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
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**13. RETIREMENT PLANS (Continued)**

**Funding Policy**

The Corporation's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the laws governing the System, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used. The employees of the Corporation are required by State statute to contribute to the System. The employees contribute from 2 to 5 percent of compensation, as defined, depending on the participant's plan. The Corporation made its required contribution during fiscal years ended June 30, 2014 and 2013 in the amounts of \$142,411 and \$115,277, respectively.

**14. POST RETIREMENT BENEFITS**

Former employees of the Corporation who are receiving retirement benefits may participate in post employment health care benefits provided by the State for retired employees and their dependents. These plans, which provide insurance coverage for medical, dental and hospital costs are funded currently by the payment of premiums to carriers and, under State policy, are contributory. Substantially all employees become eligible for these benefits when they retire with pension benefits. The cost of retirees' health care benefits are expensed when paid and totaled \$55,346 for twenty one covered employees and \$71,937 for twenty four covered employees for the years ended June 30, 2014 and 2013, respectively.

**15. DEFERRED COMPENSATION PLAN**

Employees of the Corporation are also eligible to participate in the State's Deferred - Compensation Plans (Plans) created in accordance with Internal Revenue Code Sections 457 and 401(k). The Plans, available to eligible employees, permit participants to defer a portion of their salary until future years. Participation in the Plans is optional.

The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All assets of the Plans are held in a trust, custodial account or annuity contract for the exclusive benefit of employees and beneficiaries. The Plan's third-party administrator manages investments under one of several investment options, or a combination thereof. Participants make the choice of the investment option(s).

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**16. SUBSEQUENT EVENTS**

On August 6, 2014 the Board of Directors passed a resolution to pay the Line of Credit balance of \$749,313. The Line of Credit payment was made on August 14, 2014.