



Abrams  
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**MARYLAND AFRICAN AMERICAN  
MUSEUM CORPORATION**

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

**Years Ended June 30, 2016 and 2015**

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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, 2016 and 2015, and the related statements of activities and changes in net assets 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 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.

**Certified Public Accountants & Business Advisors**

## 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, 2016 and 2015, 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 Schedule of Functional Expenses (with Comparative Totals for 2015) on page 22 is presented for the purpose of additional analysis and is 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 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.



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

February 2, 2017

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,059	\$ 380,046
Accounts receivable	-	4,104
Other receivables	18,341	84,402
Gift Shop inventory	24,863	10,093
Prepaid expenses	-	15,475
	47,263	494,120
<b>Property and Equipment, net</b>	<b>927,560</b>	<b>1,194,535</b>
<b>Non Current Assets</b>		
Investments	7,083,466	7,830,712
Restricted cash	1,061,452	1,051,190
	8,144,918	8,881,902
<b>Total Assets</b>	<b>\$ 9,119,741</b>	<b>\$ 10,570,557</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 110,932	\$ 200,885
Accrued payroll expenses	137,946	144,440
Accrued expenses	33,000	33,000
Line of credit	800,000	601,450
Deferred revenue	5,779	10,000
	1,087,657	989,775
<b>Net Assets</b>		
Unrestricted net assets/(deficit)	(1,988,594)	(1,089,417)
Temporarily restricted net assets	1,371,818	2,021,339
Permanently restricted net assets	8,648,860	8,648,860
	8,032,084	9,580,782
<b>Total Liabilities and Net Assets</b>	<b>\$ 9,119,741</b>	<b>\$ 10,570,557</b>

“See Accompanying Notes”

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2016**

	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenue and Support</b>				
Grants	\$ 2,376,069	\$ 1,000	\$ -	\$ 2,377,069
Contributions	78,156	363,959	-	442,115
Admissions	143,801	-	-	143,801
Membership dues	47,866	-	-	47,866
Investment income	1,452	117,828	-	119,280
Realized (loss) on endowments	-	(310,274)	-	(310,274)
Unrealized (loss) on endowments	-	(544,535)	-	(544,535)
Other income	158,167	-	-	158,167
Net assets released from restrictions	277,499	(277,499)	-	-
Total revenue and support	3,083,010	(649,521)	-	2,433,489
<b>Expenses</b>				
Collections and exhibitions	662,110	-	-	662,110
Education and public programs	691,029	-	-	691,029
External affairs	685,246	-	-	685,246
Management, building and security	1,943,802	-	-	1,943,802
Total expenses	3,982,187	-	-	3,982,187
<b>(Decrease) in net assets</b>	(899,177)	(649,521)	-	(1,548,698)
Net assets/(deficit) beginning of year	(1,089,417)	2,021,339	8,648,860	9,580,782
<b>Net Assets/(Deficit) End of Year</b>	\$ (1,988,594)	\$ 1,371,818	\$ 8,648,860	\$ 8,032,084

“See Accompanying Notes”

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2015**

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Grants	\$ 2,283,321	\$ 46,875	\$ -	\$ 2,330,196
Contributions	74,921	92,800	-	167,721
Admissions	99,449	-	-	99,449
Membership dues	46,047	-	-	46,047
Investment income	1,316	142,668	-	143,984
Realized gains on endowments	-	1,734	-	1,734
Unrealized gains on endowments	-	123,613	-	123,613
Other income	191,936	-	-	191,936
Net assets released from restrictions	492,124	(492,124)	-	-
Total revenue and support	3,189,114	(84,434)	-	3,104,680
<b>Expenses</b>				
Collections and exhibitions	592,921	-	-	592,921
Education and public programs	683,837	-	-	683,837
External affairs	521,128	-	-	521,128
Management, building and security	1,882,522	-	-	1,882,522
Total expenses	3,680,408	-	-	3,680,408
<b>(Decrease) in net assets</b>	(491,294)	(84,434)	-	(575,728)
Net assets/(deficit) beginning of year	(598,123)	2,105,773	8,648,860	10,156,510
<b>Net Assets/(Deficit) End of Year</b>	<u>\$ (1,089,417)</u>	<u>\$ 2,021,339</u>	<u>\$ 8,648,860</u>	<u>\$ 9,580,782</u>

“See Accompanying Notes”

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$(1,548,698)	\$ (575,728)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	266,975	269,817
Unrealized loss (gain) on investments	544,535	(123,613)
Changes in operating assets and liabilities:		
(Increase) decrease in assets		
Accounts receivable	4,104	(4,104)
Other receivables	66,061	1,442
Inventory	(14,770)	1,475
Prepaid expenses	15,475	(265)
Increase (decrease) in liabilities		
Accrued payroll expenses	(6,494)	14,434
Accounts payable	(89,953)	46,423
Deferred revenue	(4,221)	10,000
Total adjustments	<u>781,712</u>	<u>215,609</u>
Net cash (used) provided by operating activities	<u>(766,986)</u>	<u>(360,119)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of fixed assets	-	(6,475)
Purchase of investments	(2,674,511)	(6,545,447)
Proceeds from sale of investments	2,877,222	5,456,375
Changes in restricted cash	<u>(10,262)</u>	<u>1,241,174</u>
Net cash provided by investing activities	<u>192,449</u>	<u>145,627</u>
Proceeds from line of credit	800,000	-
Principal payments on line of credit	<u>(601,450)</u>	<u>(147,863)</u>
Net cash provided by (used) in financing activities	<u>198,550</u>	<u>(147,863)</u>
(Decrease) in cash and cash equivalents	(375,987)	(362,355)
Cash and cash equivalents, beginning of year	<u>380,046</u>	<u>742,401</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,059</u>	<u>\$ 380,046</u>
<b>Supplemental disclosure</b>		
Cash paid for interest	<u>\$ 17,408</u>	<u>\$ 9,460</u>

“See Accompanying Notes”



**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**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 building was renamed 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, 2016 and 2015**

**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, 2016 and 2015**

**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. 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.

I. 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 with various subsequent extensions through January 2, 2017.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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

I. Line of Credit (continued)

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, then December 2, 2015 and in March 2016, the line of credit was extended to January 2, 2017 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 percent. Collateral of \$1,000,000 is held on a Certificate of Deposit Account Registry Service (CDARS) account. Borrowings totaled \$800,000 and \$601,450 at June 30, 2016 and 2015, respectively.

J. 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, 2016 and 2015, there was no balance due to the State of Maryland. The Corporation did not meet its matching requirement for the years ended June 30, 2016 and 2015 under the terms of the Memorandum of Understanding.

K. 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, 2016 and 2015**

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

L. 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.

M. 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) up to a maximum of \$250,000 per depositor. 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.

N. Reporting for Impairment of Capital Assets and Insurance Recoveries

The Corporation received no insurance recoveries for the years ended June 30, 2016 and 2015. There were no impairments of capital assets.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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

**O. 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 \$0 and \$26,135, for the years ended June 30, 2016 and 2015, respectively.

**2. CASH DEPOSIT BALANCES**

The following are the carrying value and bank balances of deposits at June 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Carrying Amounts</u>	<u>Bank Amounts</u>	<u>Carrying Amounts</u>	<u>Bank Amounts</u>
Demand deposits	\$ (79,178)	\$ 70,919	\$ 67,283	\$ 90,844
Certificate of deposits	1,061,452	1,061,452	1,051,190	1,051,190
Money market accounts	<u>81,851</u>	<u>69,048</u>	<u>312,063</u>	<u>296,999</u>
Total	<u>\$ 1,064,125</u>	<u>\$ 1,201,419</u>	<u>\$ 1,430,536</u>	<u>\$ 1,439,033</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 \$1,386 and \$700 at June 30, 2016 and 2015, respectively.

**3. RESTRICTED CASH**

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

	<u>2016</u>	<u>2015</u>
Operating endowments	\$ 138,114	\$ 136,575
Education endowments	<u>923,338</u>	<u>914,615</u>
Total	<u>\$ 1,061,452</u>	<u>\$ 1,051,190</u>

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**4. FAIR VALUE MEASUREMENTS**

Fair value is defined 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. Generally accepted accounting principles in the United States (GAAP) establish a framework for measuring fair value. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. That hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (“Level 1”) and the lowest priority to unobservable inputs (“Level 3”).

The three levels of fair value hierarchy are described below:

Level 1

Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3

Inputs that are 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 statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Cash and Money Market Funds:* These funds are categorized as Level 1 as the primary purpose is to maintain a stable net asset value (“NAV”) of \$1.

*Domestic Equity Securities (Stocks):* Valued at the closing price reported on the active markets on which the individual securities are traded and categorized as Level 1.

*Corporate 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.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**4. FAIR VALUE MEASUREMENTS (Continued)**

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, 2016 and 2015:

**Fair Value Measurements Using:**

<b>Description</b>	<b>2016 Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash and Money Market Funds	\$ 587,195	\$ 587,195	\$ -	\$ -
Stocks	4,818,250	4,818,250	-	-
Corporate and Other Bonds	1,678,021	-	1,678,021	-
Total	<u>\$ 7,083,466</u>	<u>\$ 5,405,445</u>	<u>\$ 1,678,021</u>	<u>\$ -</u>

**Fair Value Measurements Using:**

<b>Description</b>	<b>2015 Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash and Money Market Funds	\$ 132,349	\$ 132,349	\$ -	\$ -
Stocks	5,166,695	5,166,695	-	-
Corporate and Other Bonds	2,531,668	-	2,531,668	-
Total	<u>\$ 7,830,712</u>	<u>\$ 5,299,044</u>	<u>\$ 2,531,668</u>	<u>\$ -</u>

For the period from July 1, 2015, through June 30, 2016, the application of the valuation techniques applied to similar assets and liabilities has been consistent.



**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**5. INVESTMENTS**

Investments are presented at fair value and are composed of the following at June 30, 2016 and 2015.

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 587,195	\$ 587,195	\$ 132,349	\$ 132,349
Corporate bonds	1,663,823	1,678,021	2,538,524	2,531,668
Stocks	4,326,872	4,818,250	4,006,463	5,166,695
Total	<u>\$ 6,577,890</u>	<u>\$ 7,083,466</u>	<u>\$ 6,677,336</u>	<u>\$ 7,830,712</u>

**6. OTHER RECEIVABLES**

Other receivables consisted of commissions due the Corporation from its catering vendor. For the year ended June 30, 2016, an agreement was entered into by management and the catering company to forgive the existing commissions receivable of \$68,755. Therefore, a bad debt expense was recorded.

**7. CAPITAL ASSETS**

Capital assets consist of the following at June 30, 2016:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2016</u>
<b>Capital Assets</b>				
Equipment	\$ 440,405	\$ -	\$ -	\$ 440,405
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	-	15,405
Permanent exhibit	2,912,491	-	-	2,912,491
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	289,282	-	-	289,282
Total	<u>3,767,544</u>	<u>-</u>	<u>-</u>	<u>3,767,544</u>
<b>Accumulated depreciation</b>				
Equipment	311,309	43,350	-	354,659
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	-	15,405
Permanent exhibit	1,936,746	194,788	-	2,131,534
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	199,588	28,837	-	228,425
Total	<u>2,573,009</u>	<u>266,975</u>	<u>-</u>	<u>2,839,984</u>
<b>Capital Assets, net</b>	<u>\$ 1,194,535</u>	<u>\$ (266,975)</u>	<u>\$ -</u>	<u>\$ 927,560</u>

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**7. CAPITAL ASSETS (Continued)**

Capital assets consist of the following at June 30, 2015:

<b>Capital Assets</b>	<b>Balance June 30, 2014</b>	<b>Additions</b>	<b>Disposals/ Transfers</b>	<b>Balance June 30, 2015</b>
Equipment	\$ 440,405	\$ -	\$ -	\$ 440,405
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	-	15,405
Permanent exhibit	2,908,991	3,500	-	2,912,491
Gift shop F&F	20,236	-	-	20,236
Building improvements	286,307	2,975	-	289,282
Total	<u>3,761,069</u>	<u>6,475</u>	<u>-</u>	<u>3,767,544</u>
<b>Accumulated depreciation</b>				
Equipment	267,853	43,456	-	311,309
Furniture	89,518	207	-	89,725
Vehicles	15,405	-	-	15,405
Permanent exhibit	1,742,307	194,439	-	1,936,746
Gift shop F&F	19,093	1,143	-	20,236
Building improvements	169,016	30,572	-	199,588
Total	<u>2,303,192</u>	<u>269,817</u>	<u>-</u>	<u>2,573,009</u>
<b>Capital Assets, net</b>	<u>\$ 1,457,877</u>	<u>\$ (263,342)</u>	<u>\$ -</u>	<u>\$ 1,194,535</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.

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, 2016 and 2015, the Corporation owed \$65,343 and \$72,355, respectively, to the State of Maryland.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**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 2016 and 2015, the Corporation had operating lease agreements for various pieces of office equipment. Rental expense was \$20,802 and \$24,433 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments under operating leases with lease terms of one year or more for the year ended June 30, 2016 are as follows:

2017	\$ 5,113
2018	<u>786</u>
Total	<u>\$ 5,899</u>

**10. 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

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
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**10. ENDOWMENT NET ASSETS (Continued)**

**Interpretation of Relevant Law (continued)**

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.

**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.

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment Net Assets, July 1, 2015</b>	\$ 2,021,339	\$ 8,648,860	\$ 10,670,199
Investment return:			
Investment income	117,828	-	117,828
Realized/Unrealized (loss) on endowment	(800,434)	-	(800,434)
Subtotal	1,338,733	8,648,860	9,987,593
Fees	(54,375)	-	(54,375)
Contributions	364,959	-	364,959
Net assets released from restrictions	(277,499)	-	(277,499)
<b>Endowment Net Assets, June 30, 2016</b>	<b>\$ 1,371,818</b>	<b>\$ 8,648,860</b>	<b>\$ 10,020,678</b>

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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

**Corporation's Spending Policy (continued)**

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment Net Assets, July 1, 2014</b>	\$ 2,105,773	\$ 8,648,860	\$ 10,754,633
Investment return:			
Investment income	142,668	-	142,668
Realized/Unrealized gains on endowment	180,160	-	180,160
Subtotal	2,428,601	8,648,860	11,077,461
Fees	(54,813)	-	(54,813)
Contributions	139,675	-	139,675
Net assets released from restrictions	(492,124)	-	(492,124)
<b>Endowment Net Assets, June 30, 2015</b>	<b>\$ 2,021,339</b>	<b>\$ 8,648,860</b>	<b>\$ 10,670,199</b>

**11. RESTRICTIONS ON NET ASSETS**

Net assets at June 30, 2016 and 2015 are restricted for the following purposes:

	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>Temporarily Restricted:</u></b>		
Education	\$ 1,313,305	\$ 1,833,059
Marketing	70,489	55,194
Museum operation	(111,171)	51,868
Development	99,195	81,218
Total	<u>\$ 1,371,818</u>	<u>\$ 2,021,339</u>
<b><u>Permanently Restricted:</u></b>		
Education	\$ 6,332,626	\$ 6,332,626
Museum operations	2,316,234	2,316,234
Total	<u>\$ 8,648,860</u>	<u>\$ 8,648,860</u>

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

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
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**12. 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.

**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 7 percent of compensation, as defined, depending on the participant's plan. The Corporation made its required contribution during fiscal years ended June 30, 2016 and 2015 in the amounts of \$190,939 and \$177,654, respectively.

**13. 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 \$91,762 for nineteen covered employees and \$63,820 for twenty six covered employees for the years ended June 30, 2016 and 2015, respectively.

**14. 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.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**14. DEFERRED COMPENSATION PLAN (Continued)**

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).

**15. UNRESTRICTED NET ASSETS (DEFICIT)**

Unrestricted net assets (deficit) consist of unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Corporation and include both internally-designated and undesignated resources. The balance of unrestricted net assets (deficit) was negative (\$2,254,383) and (\$1,089,417) at June 30, 2016 and 2015, respectively.

The Board and management of the Corporation has developed and implemented a strategic planning process to restructure its operations to reduce expenses and increase donations through community partnerships and corporate sponsorships in an effort to reduce and eliminate its net unrestricted net assets (deficit).

**16. SUBSEQUENT EVENTS**

In December 2016, the Corporation drew down an additional \$100,000 from its line of credit as disclosed in Note 1.I.

On January 12, 2017, the bank granted the Corporation an administrative extension on the line of credit until the renewal is formally documented as disclosed in Note 1.I.

On February 2, 2017, the Corporation secured a sixty-month interest free loan from the Reginald F. Lewis Foundation in the amount of \$700,000 to be used for operations. Repayments on the loan is deferred for the first twenty-four months and the entire balance due in full by the end of the loan term.

The Corporation has evaluated events and transactions for potential recognition or disclosure through February 2, 2017, the date the financial statements were available to be issued.

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**



**SUPPLEMENTARY INFORMATION**

**MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION**  
**Schedule of Functional Expenses**  
**Year Ended June 30, 2016**  
**(with Comparative Totals for 2015)**

	<b>COLLECTIONS AND EXHIBITS</b>	<b>EDUCATION &amp; PUBLIC PROGRAMS</b>	<b>EXTERNAL AFFAIRS</b>	<b>MANAGEMENT, BUILDING &amp; SECURITY</b>	<b>TOTAL 2016</b>	<b>COMPARATIVE TOTALS 2015</b>
Salaries & wages	\$ 188,562	\$ 343,187	\$ 218,830	\$ 440,627	\$ 1,191,206	\$ 1,213,167
Fringe benefits	83,081	150,180	99,982	220,981	554,224	480,160
Contractual employees	3,115	83,965	56,288	13,354	156,722	196,717
Communications	77	848	-	8,595	9,520	25,265
Travel	2,171	8,630	7,805	6,515	25,121	23,616
Fixed charges	3,400	2,177	3,172	35,784	44,533	26,904
Interest expense	-	-	-	17,408	17,408	9,460
Materials and supplies	21,984	16,988	8,385	22,585	69,942	62,339
Equipment	4,383	613	3,054	-	8,050	4,658
Vehicle operations & maintenance	-	-	-	4,097	4,097	1,120
Contractual services	41,621	16,424	47,867	647,357	753,269	739,715
Programs/workshops	875	43,027	1,525	-	45,427	64,102
Outside services	16,303	24,683	214,208	35,953	291,147	119,472
Exhibits	101,749	307	24,130	1,509	127,695	111,424
Utilities	-	-	-	348,096	348,096	332,472
Bad debts	-	-	-	68,755	68,755	-
Depreciation expense	194,789	-	-	72,186	266,975	269,817
<b>Total expenses</b>	<b>\$ 662,110</b>	<b>\$ 691,029</b>	<b>\$ 685,246</b>	<b>\$ 1,943,802</b>	<b>\$ 3,982,187</b>	<b>\$ 3,680,408</b>



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