

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Financial Statements
June 30, 2015 and 2014
Together with Independent Auditor's Report



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Trustees of
Honolulu Academy of Arts, dba Honolulu Museum of Art:

Report on the Financial Statements

We have audited the accompanying financial statements of Honolulu Academy of Arts, dba Honolulu Museum of Art (the Museum), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements (collectively, 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 Honolulu Academy of Arts, dba Honolulu Museum of Art, as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as of and for the year ended June 30, 2015 as a whole. The accompanying schedule of functional expenses is presented for purposes 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 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 as of and for the year ended June 30, 2015 is fairly stated in all material respects in relation to the financial statements as a whole.

The financial statements of Honolulu Academy of Arts, dba Honolulu Museum of Art, as of and for the year ended June 30, 2014, were audited by other auditors whose report dated July 2, 2015 expressed an unmodified opinion on those statements.

Handwritten signature in black ink that reads "KMH LLP".

KMH LLP

Honolulu, Hawaii
February 17, 2016

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Statements of Financial Position
June 30, 2015 and 2014

Assets

	2015	2014
Cash and Cash Equivalents	\$ 5,258,440	\$ 1,511,394
Inventories	307,105	274,409
Contributions Receivable, net	1,454,303	3,649,137
Prepaid Expenses and Other	228,750	213,010
Contributed Rent	143,269	249,881
Investment in Real Estate	240,000	4,550,000
Land, Buildings, and Equipment, net	32,479,095	33,118,522
Long-term Investments	63,861,151	65,935,496
Beneficial Interest in Perpetual Trusts	17,081,350	17,974,955
	<u>\$ 121,053,463</u>	<u>\$ 127,476,804</u>
Total assets		

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued expenses	\$ 968,423	\$ 1,008,372
Liabilities under split-interest agreements	2,379,747	2,212,250
Loans payable	-	3,989,263
Deferred revenue	470,965	160,127
Pension and other post-retirement obligations	5,054,636	4,797,253
Other	18,864	14,086
	<u>8,892,635</u>	<u>12,181,351</u>
Total liabilities		
Commitments and Contingencies		
Net Assets:		
Unrestricted --		
Undesignated	27,991,189	25,525,322
Temporarily restricted	9,687,696	14,255,062
Permanently restricted	74,481,943	75,515,069
	<u>112,160,828</u>	<u>115,295,453</u>
Total net assets		
Total liabilities and net assets	<u>\$121,053,463</u>	<u>\$127,476,804</u>

See accompanying notes to financial statements.

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Statement of Activities
Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains, and Other Support:				
Gifts and bequests	\$ 2,007,863	\$ 2,050,264	\$ 295,189	\$ 4,353,316
Net realized and unrealized loss on investments	(315,241)	(419,425)	(434,710)	(1,169,376)
Loss on sale of investment in real estate, net	-	(5,682)	-	(5,682)
Change in value of split-interest agreements	(450,814)	9,024	-	(441,790)
Change in in value of beneficial interest in perpetual trusts	-	-	(893,605)	(893,605)
Dividends and interest, net of investment fees and expenses of \$ 376,532	284,966	2,203,624	-	2,488,590
Museum shops and cafes	1,639,008	71,810	-	1,710,818
Income from Trusts:				
R. Allerton Acquisition Fund and R. Allerton Trust	679,202	54,447	-	733,649
Others	262,181	27,071	-	289,252
Membership dues	958,036	-	-	958,036
Tuition and fees	1,257,726	88,143	-	1,345,869
Admissions	449,683	60	-	449,743
Governmental grants	-	17,527	-	17,527
Special events and other, net	1,382,209	200,717	-	1,582,926
Net assets released from restrictions	8,864,946	(8,864,946)	-	-
Total revenue, net gains, and other support	<u>17,019,765</u>	<u>(4,567,366)</u>	<u>(1,033,126)</u>	<u>11,419,273</u>
Expenses:				
Program services:				
Education	4,081,405	-	-	4,081,405
Special exhibitions	2,568,322	-	-	2,568,322
Curatorial and conservation	1,900,268	-	-	1,900,268
Museum Shop and Cafes	2,013,977	-	-	2,013,977
Art acquisitions	332,249	-	-	332,249
Total program services	<u>10,896,221</u>	<u>-</u>	<u>-</u>	<u>10,896,221</u>
Supporting services:				
Management and general	2,373,228	-	-	2,373,228
Fundraising and development	1,284,449	-	-	1,284,449
Total supporting services	<u>3,657,677</u>	<u>-</u>	<u>-</u>	<u>3,657,677</u>
Total expenses	<u>14,553,898</u>	<u>-</u>	<u>-</u>	<u>14,553,898</u>
Change in net assets	<u>2,465,867</u>	<u>(4,567,366)</u>	<u>(1,033,126)</u>	<u>(3,134,625)</u>
Collections	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets at Beginning of Year	<u>25,525,322</u>	<u>14,255,062</u>	<u>75,515,069</u>	<u>115,295,453</u>
Net Assets at End of Year	<u>\$ 27,991,189</u>	<u>\$ 9,687,696</u>	<u>\$ 74,481,943</u>	<u>\$112,160,828</u>

See accompanying notes to financial statements.

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Statement of Activities
Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains, and Other Support:				
Gifts and bequests	\$ 5,049,640	\$ 1,392,347	\$ 368,634	\$ 6,810,621
Net realized and unrealized gain on investments	894,771	2,998,383	1,796,006	5,689,160
Gain on sale of investment in real estate	-	330,533	-	330,533
Impairment loss on investment in real estate	(450,000)	-	-	(450,000)
Change in value of split-interest agreements	(71,979)	6,171	-	(65,808)
Change in in value of beneficial interest in perpetual trusts	-	-	1,853,627	1,853,627
Dividends and interest, net of investment fees and expenses of \$ 390,885	144,156	1,877,952	-	2,022,108
Museum shops and cafes, net	1,533,092	-	-	1,533,092
Income from Trusts:				
R. Allerton Acquisition Fund and R. Allerton Trust	651,582	42,091	-	693,673
Others	223,604	25,752	-	249,356
Membership dues	1,240,242	-	-	1,240,242
Tuition and fees	1,332,520	-	-	1,332,520
Admissions	466,113	-	-	466,113
Governmental grants	-	153,731	-	153,731
Special events and other, net	1,560,952	-	-	1,560,952
Net assets released from restrictions	5,836,414	(5,836,414)	-	-
Total revenue, gains, and other support	<u>18,411,107</u>	<u>990,546</u>	<u>4,018,267</u>	<u>23,419,920</u>
Expenses:				
Program services:				
Education	4,113,560	-	-	4,113,560
Special exhibitions	2,597,231	-	-	2,597,231
Curatorial and conservation	2,008,214	-	-	2,008,214
Museum shops and cafes	1,876,719	-	-	1,876,719
Art acquisitions	201,545	-	-	201,545
Total program services	<u>10,797,269</u>	<u>-</u>	<u>-</u>	<u>10,797,269</u>
Supporting services:				
Management and general	2,439,411	-	-	2,439,411
Development	1,428,716	-	-	1,428,716
Total supporting services	<u>3,868,127</u>	<u>-</u>	<u>-</u>	<u>3,868,127</u>
Total expenses	<u>14,665,396</u>	<u>-</u>	<u>-</u>	<u>14,665,396</u>
Change in net assets	3,745,711	990,546	4,018,267	8,754,524
Collections	-	-	-	-
Net Assets at Beginning of Year	<u>21,779,611</u>	<u>13,264,516</u>	<u>71,496,802</u>	<u>106,540,929</u>
Net Assets at End of Year	<u>\$ 25,525,322</u>	<u>\$ 14,255,062</u>	<u>\$ 75,515,069</u>	<u>\$115,295,453</u>

See accompanying notes to financial statements.

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Statements of Cash Flows
Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,134,625)	\$ 8,754,524
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,127,742	1,127,758
Net realized and unrealized (gain) loss on investments	1,169,376	(5,689,160)
Increase in pension and other retirement obligations	257,384	1,221,075
Impairment loss on investment in real estate	-	450,000
Gain on sale of investment in real estate	(250,000)	(330,533)
Change in value of split-interest agreements	1,335,395	(1,787,818)
Contributions restricted for long-term investment	(593,208)	(433,634)
Changes in operating assets and liabilities:		
Increase in inventories	(32,696)	(66,585)
Decrease (increase) in contributions receivable	1,954,834	(3,528,277)
Decrease (increase) in prepaid expenses and other	(15,740)	134,843
Increase (decrease) in accounts payable and accrued expenses	(39,949)	51,883
Decrease in liabilities under split-interest agreements	(274,293)	(321,811)
Increase (decrease) in deferred revenue	310,838	(363,159)
Increase (decrease) in other liabilities	4,778	(53,832)
Net cash provided by (used in) operating activities	<u>1,819,836</u>	<u>(834,726)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	21,826,324	22,196,383
Proceeds from sale of investment in real estate	4,800,000	2,830,533
Purchase of investments	(20,921,355)	(20,185,414)
Purchases of buildings and equipment	(381,704)	(1,030,162)
Net cash provided by investing activities	<u>5,323,265</u>	<u>3,811,340</u>

(continued)

See accompanying notes to financial statements.

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Statements of Cash Flows
Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from financing activities:		
Proceeds from issuance of loans payable	-	500,000
Payments on loans payable	(3,989,263)	(3,518,811)
Proceeds from contributions restricted for:		
Investment in endowment	364,928	368,634
Investment in land, buildings, and equipment	<u>228,280</u>	<u>65,000</u>
Net cash used in financing activities	<u>(3,396,055)</u>	<u>(2,585,177)</u>
Net increase in cash and cash equivalents	3,747,046	391,437
Cash and cash equivalents, beginning of year	<u>1,511,394</u>	<u>1,119,957</u>
Cash and cash equivalents, end of year	<u>\$ 5,258,440</u>	<u>\$ 1,511,394</u>
Supplemental Disclosure of Cash Flow Information --		
Interest Paid	<u>\$ 50,887</u>	<u>\$ 64,173</u>
Supplemental Disclosure of Noncash Activities --		
Receipt of Investment in Real Estate Held in Contribution Receivable	<u>\$ 240,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies

a. General

The Honolulu Academy of Arts dba Honolulu Museum of Art (the Museum) was founded in 1927 to provide educational and cultural enrichment in the arts. It is a private, nonprofit institution accredited by the American Association of Museums. The Museum's operations are conducted in the state of Hawaii.

On July 1, 2011, subject to the restrictions and conditions of the gift agreement signed by The Contemporary Museum (TCM) and the Museum, TCM gifted artwork, real property, pledge receivables, cash, and investments, to the extent transferable, to the Museum. The Museum recorded approximately \$25,491,000 as gifts and bequests related to the gift agreement based on restrictions stipulated by the donor.

The real property gifted by TCM was comprised of three residential properties and recorded at appraised values totaling \$14,600,000. Pursuant to the gift agreement, one property is to be used in the operations of the Museum and is recorded as a component of land, buildings, and equipment at a carrying value of \$6,300,000. The remaining properties are recorded as investment in real estate to be sold with a portion of the proceeds to be used to repay the Museum's loans payable balance. Proceeds in excess of the loans payable balance are to be used at the direction of the board of trustees. At June 30, 2014, the Museum's outstanding loans payable balance amounted to \$3,989,263 and accordingly, the portion of the gift restricted for repayment of the loans payable balance was recorded as temporarily restricted in the accompanying statements of activities. In July 2013 and May 2015, the remaining properties were sold and the loans were repaid.

b. Financial Statement Presentation

Net assets and revenues, gains, losses, and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Museum and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Museum. The donors of these assets permit the Museum to use all of the income earned on related investments for general or specific purposes.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

c. Cash and Cash Equivalents

The Museum considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Included in investments are cash and cash equivalents designated by the Board to be held in investment accounts for routine purchases and sales of investments.

d. Inventories

Merchandise inventories consist of gift shop and cafe items and are recorded at the lower of cost (specific identification) or market.

e. Investments

Marketable securities are reported at fair value in the statements of financial position with unrealized gains and losses included in the statements of activities. Fair value is based on quoted market prices or other methods as further described in Note 12.

Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

f. Investment in Real Estate

Investment in real estate is reported at the lower of carrying value or fair value and is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including quoted market values and third-party independent appraisals, as considered necessary. In 2014, the Museum recorded an impairment loss of \$450,000 in the statement of activities.

g. Land, Buildings, and Equipment

Land, buildings, and equipment are capitalized at cost, if purchased, or at fair market value at the date of the donation, if contributed. Assets contributed for which the fair value is not determinable at the date of donation are recorded as support if and when such values are determined.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

g. Land, Buildings, and Equipment (continued)

The Museum reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Depreciation on buildings and equipment is calculated on the straight-line method over the estimated economic life of the assets.

h. Contributions

Contributions are recorded in the period received. Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using fair value rates in the years in which promises are received. Amortization of the discounts is included in gifts and bequests in the accompanying statements of activities. Conditional contributions are recorded at their estimated fair value in the period the conditions are met or in the period received if there is only a remote likelihood that those conditions will not be met.

The Museum provides an allowance for uncollectible contributions based upon historical experience with its donors as well as individual donor circumstances.

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

i. Split Interest Agreements

The Museum's split-interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts, and charitable gift annuities for which the Museum serves as trustee. Assets held under these split-interest agreements are included in investments. Contribution revenues are recognized upon the effective date of the split-interest agreements as gifts and bequests in the accompanying statements of activities.

Liabilities are recorded for the present value (utilizing discount rates ranging between 4% and 7.25%) of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are subsequently adjusted during the term of the split-interest agreements for changes in the fair value of the assets, accretion of the discount, and other changes in the estimates of future benefits. For the years ended June 30, 2015 and 2014, gifts and bequests related to pooled income funds, charitable remainder trusts, and charitable gift annuities amounted to approximately \$20,000 and \$0, respectively, included in gifts and bequests in the accompanying statements of activities. For the years ended June 30, 2015 and 2014, increases in the value of liabilities under split-interest agreements related to pooled income funds, charitable remainder trusts, and charitable gift annuities amounted to \$167,497 and \$256,002, respectively, included in change in value of split-interest agreements in the accompanying statements of activities.

j. Beneficial Interest in Perpetual Trusts

The Museum receives contributions of interests in irrevocable perpetual trusts of which third-party entities serve as trustee. Initial recognition and subsequent adjustments to the Museum's beneficial interest in the trust assets carrying values are recognized as gifts and bequests revenue and changes in value of beneficial interest in perpetual trusts, respectively, and are classified as permanently restricted, as the trusts are to be invested in perpetuity by the trustee. For the years ended June 30, 2015 and 2014, income generated from the Museum's interests in beneficial interest in perpetual trusts amounted to \$1,022,902 and \$943,029, respectively, recorded as income from trusts in the accompanying statement of activities. For the years ended June 30, 2015 and 2014, changes in the value of split-interest agreements associated with beneficial interests in perpetual trusts amounted to \$(893,605) and \$1,853,627, respectively, recorded as change in value of beneficial interest in perpetual trusts in the accompanying statements of activities. There were no new beneficial interests in perpetual trusts in 2015 and 2014.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

k. Art Collection

The Museum's art collection comprises works of art, which are held for exhibition, research, and educational purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for the collection.

Works of art in the Museum's collection are not recognized as assets in the statements of financial position. Purchases of art are recorded as decreases in unrestricted net assets in the year in which the items are acquired.

l. Pension and Other Postretirement Plans

The Museum has a noncontributory defined benefit pension plan covering substantially all of its employees upon their retirement. The benefits are based on age, years of service, and the level of compensation during the five years before retirement. The Museum also sponsors a defined benefit postretirement plan for select employees.

The Museum records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. The Museum reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The Museum believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions. The effect of modifications to those assumptions is recorded in its changes in unrestricted net assets and amortization to net periodic cost over future periods. The Museum uses a measurement date of June 30.

The net periodic costs are recognized as employees render the services necessary to earn the pension and postretirement benefits.

Effective June 30, 2015, the Museum terminated the pension plan. All vested benefits will be settled with participants in 2016.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

m. Deferred Revenue

Deferred revenue represents annual membership dues collected for future periods, and for exhibition fees received as deposits for traveling exhibitions organized by the Museum and displayed subsequent to June 30, 2015 and 2014.

n. Income Taxes

The Museum is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code and the Hawaii Revised Statutes. The Museum is also exempt from Hawaii general excise tax on income directly related to its mission. However, the Museum is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

The Museum recognizes the effect of income tax positions only if it is more-likely-than-not that the tax position will be sustained upon examination by taxing authorities, based on the technical merits of the position. The tax effects recognized in the financial statements from such a position are measured based on the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Any interest or penalties related to any unrecognized tax benefit/liability are classified as management and general expenses.

The Museum has evaluated its tax positions and determined that there were no uncertain tax positions at June 30, 2015 and 2014.

o. Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Museum first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

p. Fair Value Measurements

The Museum applies the provisions of Accounting Standards Codification (ASC) Topic 820 to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Museum applies the provisions of Accounting Standards Update (ASU) No. 2009-12, Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), to its alternative investments. This standard amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value, using net asset value per share or its equivalent as a practical expedient.

q. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of land, buildings, and equipment, valuation of contributions and other receivables, investment in real estate, long-term investments, beneficial interest in perpetual trusts, liabilities under split-interest agreements, and assets and obligations related to retirement plans. Actual results could differ from those estimates.

r. Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which sets forth a new revenue recognition model, codified in FASB ASC Topic 606-10. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of the amendments in ASU 2014-09 by one year to the year ending June 30, 2019. The amendments in ASU 2014-09 require entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Museum is currently assessing the impact of ASU 2014-09 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

s. Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statements presentation. Such reclassifications had no impact on the previously reported change in net assets.

2. Contributions Receivable

Contributions receivable amounted to \$1,454,303 and \$3,649,137 at June 30, 2015 and 2014, respectively. The amounts expected to be received in less than one year and in one to five years are \$496,325 and \$957,978 at June 30, 2015, respectively. The amounts expected to be received in less than one year and in one to five years are \$2,451,159 and \$1,197,978 at June 30, 2014, respectively.

3. Contributed Rent

The Museum leases land and a building for its Art School from the state of Hawaii. The lease is for a term of 55 years, through November 30, 2041. For the 10-year period beginning December 1, 2006, the lease is payable in annual installments of \$480. The annual rent will then be renegotiated at the expiration of the thirtieth (2016), fortieth (2026), and fiftieth (2036) year.

Contributed rent represents the net present value of the difference between the fair rental value of the property and the stated amount of the lease payments, which does not exceed the fair value of the real property at the lease commencement date. The amount is considered a temporarily restricted asset and will be released to unrestricted over the lease term.

Contributed rent at June 30, 2015 and 2014 is \$143,269 and \$249,881, respectively, and the related amortization for the years ended June 30, 2015 and 2014 is \$106,612 and \$111,742, respectively. The contribution is discounted over a 10-year period using a risk-free rate as of December 1, 2006 (lease date) of 4.81%.

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements
June 30, 2015 and 2014

4. Land, Buildings, and Equipment

A summary of land, buildings, and equipment at June 30, 2015 and 2014 is as follows:

	Depreciable lives	Cost	
		2015	2014
Depreciable assets:			
Land improvements	20 years	\$ 333,669	\$ 327,186
Buildings	20–50 years	38,003,946	37,797,867
Equipment	5–10 years	5,213,341	5,103,661
		43,550,956	43,228,714
Less accumulated depreciation		(17,660,443)	(16,640,468)
		25,890,513	26,588,246
Land		6,530,276	6,530,276
Construction in progress		58,306	-
		<u>\$ 32,479,095</u>	<u>\$ 33,118,522</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$1,021,132 and \$1,016,016, respectively.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

5. Art Collection

The Museum's collections, acquired through purchase and contributions, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded in the year in which the items were acquired. Contributed collection items are not reflected in the financial statements. The cost of art objects purchased was \$332,249 and \$201,545 for the years ended June 30, 2015 and 2014, respectively, and is reported in the statements of activities.

Gifts of cash or other property restricted by donors for the purchase of art and artifacts for the collection or proceeds from deaccessions are recognized as income in temporarily restricted net assets and are only available to purchase art and artifacts for the Museum's collection. Proceeds from sale of collection items during the years ended June 30, 2015 and 2014 was \$119,096 and \$147,109, respectively, and included in special events and other, net on the Statement of Activities. Unexpended gifts are included in the temporarily restricted net assets at June 30, 2015 and 2014.

6. Loans Payable

Loans payable at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Borrowings under a \$3,500,000 term loan with a bank, various interest rate options available at bank's base rate or LIBOR (1.084% at June 30, 2014), accrued interest due monthly, with principal due January 2015; secured by certain investments	\$ -	\$ 3,459,663
Borrowings under a \$1,556,500 two-year fixed-rate of term loan with a bank, interest at 2.5% through August 10, 2014, with a new fixed rate determined based on prevailing rates, interest-only payments for the first 12 months, with equal monthly installments of principal and interest of \$17,398, final payment due May 2021, secured by certain investments	-	529,600
Total loans payable	<u>\$ -</u>	<u>\$ 3,989,263</u>

In May 2015, both loans were paid in full. Interest expense on the loans totaled \$50,195 and \$63,488 for the years ended June 30, 2015 and 2014, respectively.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

7. Leases

The Museum leases land, building, and improvements from the state of Hawaii for its Art School under an operating lease agreement that expires in 2041. The Museum also leases storage space under various operating leases on a month-to-month basis.

Total rent expense under operating leases for the years ended June 30, 2015 and 2014 was \$220,268 and \$292,801, respectively.

Future minimum lease commitments under non-cancelable operating leases as of June 30, 2015 are as follows:

Year ending June 30:	
2016	\$ 58,050
2017	54,080
2018	32,440
2019	30,280
2020	2,884
Thereafter	10,280
	<u>\$ 188,014</u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Repayment of loans payable	\$ -	\$ 3,989,263
Spalding House	167,592	175,118
Education	1,413,887	1,719,371
Museum operations	6,171,029	6,888,184
Art acquisitions	963,482	831,970
Special exhibitions	532,118	617,103
Curatorial and conservation	439,588	34,053
	<u>\$ 9,687,696</u>	<u>\$ 14,255,062</u>

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements
June 30, 2015 and 2014

8. Temporarily Restricted Net Assets (continued)

Net assets in the amount of \$8,864,946 and \$5,836,414 for the years ended June 30, 2015 and 2014, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2015</u>	<u>2014</u>
Special exhibitions	\$ 458,165	\$ 440,822
Investment in real estate	(248,154)	582,997
Education	640,697	406,864
Curatorial and conservation	628,786	265,718
Art acquisitions	1,249,257	191,131
Auxiliary and other	6,136,195	3,948,882
	<u>\$ 8,864,946</u>	<u>\$ 5,836,414</u>

9. Permanently Restricted Net Assets

At June 30, 2015 and 2014, permanently restricted net assets (e.g., endowment funds) consisted of the following:

	<u>2015</u>	<u>2014</u>
Museum operations	\$ 58,213,274	\$ 59,340,783
Art acquisitions	7,644,560	7,614,916
Curatorial and conservation	3,566,818	3,570,754
Education	3,502,708	3,459,831
Special exhibitions	1,554,583	1,528,785
	<u>\$ 74,481,943</u>	<u>\$ 75,515,069</u>

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

10. Retirement Benefit Plans

The Museum has a noncontributory defined benefit pension plan (pension plan) covering substantially all of its employees upon their retirement. The benefits are based on age, years of service, and the level of compensation during the five years before retirement. The Museum makes annual contributions to the plan consistent with the funding requirements of the Employee Retirement Income Security Act. The pension plan was frozen on June 1, 2009, and no participants have accrued any benefits under the pension plan after the plan's freeze. The Museum also sponsors a noncontributory defined benefit supplemental retirement plan that provides retirement benefits to select full-time employees.

Effective June 30, 2015, the Museum terminated the pension plan. All vested benefits will be settled with participants in 2016 through lump-sum distributions or through annuity contracts. At June 30, 2015, the accrued pension liability of approximately \$4.6 million includes the estimated additional contribution required for all vested benefits due and additional plan expenses associated with the termination.

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at June 30, 2015 and 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Pension Benefits</u>	<u>Supplemental retirement plan benefits</u>	<u>Pension benefits</u>	<u>Supplemental retirement plan benefits</u>
Benefit obligation	\$ (10,656,857)	\$ (487,674)	\$ (10,948,714)	\$ (687,598)
Fair value of plan assets	<u>6,089,895</u>	<u>-</u>	<u>6,839,059</u>	<u>-</u>
Funded status	<u>\$ (4,566,962)</u>	<u>\$ (487,674)</u>	<u>\$ (4,109,655)</u>	<u>\$ (687,598)</u>
Amounts recognized in the statements of financial position consist of:				
Liabilities	\$ 4,566,962	\$ 487,674	\$ 4,109,655	\$ 687,598

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements
June 30, 2015 and 2014

10. Retirement Benefit Plans (continued)

Amounts recognized in change in net assets consist of the following:

	2015		2014	
	Pension benefits	Supplemental retirement plan benefits	Pension benefits	Supplemental retirement plan benefits
Net periodic benefit cost	\$ (154,584)	\$ (17,849)	\$ (159,801)	\$ (18,334)
Net gain (loss)	(442,723)	164,353	(1,039,225)	(110,431)
	\$ (597,307)	\$ 146,504	\$ (1,199,026)	\$ (128,765)

The Museum recognizes net periodic pension cost as part of its employee benefits expense included in program expenses the accompanying statements of activities.

Weighted average assumptions used to determine benefit obligations for 2015 and 2014 were as follows:

	2015		2014	
	Pension benefits	Supplemental retirement plan benefits	Pension benefits	Supplemental retirement plan benefits
Discount rate	4.21%	3.37%	4.03%	2.70%
Expected long-term rate of return on plan assets	3.95%	-	4.20%	-
Rate of compensation increase	-	-	-	-

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements
June 30, 2015 and 2014

10. Retirement Benefit Plans (continued)

Weighted average assumptions used to determine net benefits cost for 2015 and 2014 were as follows:

	2015		2014	
	Pension benefits	Supplemental retirement plan benefits	Pension benefits	Supplemental retirement plan benefits
Discount rate	4.03%	2.70%	4.50%	3.13%
Expected long-term rate of return on plan assets	4.20%	N/A	4.20%	N/A
Rate of compensation increase	-	N/A	-	N/A

In 2014, the Museum changed the composition of the plan assets resulting in an overall expected long-term rate of return on plan assets of 4.2%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the return on individual asset categories. The return is based exclusively on historical performance of similar assets, without adjustments.

The following table summarizes employer contributions and benefits paid during the years ended June 30, 2015 and 2014:

	2015		2014	
	Pension benefits	Supplemental retirement plan benefits	Pension benefits	Supplemental retirement plan benefits
Employer contributions	\$ 140,000	\$ 53,420	\$ -	\$ 53,420
Benefits paid	(845,669)	(53,420)	(2,700,853)	(53,420)

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

10. Retirement Benefit Plans (continued)

a. Plan Assets

The asset allocations of the Museum's pension benefits as of the June 30 measurement date were as follows:

Asset category:	<u>2015</u>	<u>2014</u>
Debt securities	97.85%	96.50%
Other	2.15%	3.50%
Total	<u>100.00%</u>	<u>100.00%</u>

The Museum's investment goals are to maximize returns subject to specific risk management policies, which permit investments in mutual funds, debt and equity securities, and prohibits investments in derivative financial instruments, commodities, and foreign securities, other than those listed on a major U.S. security exchange. The Museum addresses diversification by the use of mutual fund investments whose underlying investments are in domestic and international fixed-income securities and domestic and international equity securities. These mutual funds are readily marketable and can be sold to fund benefit payment obligations as they become payable.

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements
June 30, 2015 and 2014

10. Retirement Benefit Plans (continued)

a. Plan Assets (continued)

The following tables present the Museum's pension plan assets measured at fair value as of June 30, 2015 and 2014:

	Fair value measurements at June 30, 2015			
	Pension benefits – plan assets			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Asset category:	Total			
Cash and cash equivalents	\$ 130,919	\$ 130,919	\$ -	\$ -
U.S. Treasury obligations	1,594,106	-	1,594,106	-
U.S. government agencies	1,058,549	-	1,058,549	-
Municipal obligations	80,192	-	80,192	-
Fixed income mutual funds	1,439,436	1,439,436	-	-
Corporate bonds	1,786,692	-	1,786,692	-
Total	<u>\$ 6,089,894</u>	<u>\$ 1,570,355</u>	<u>\$ 4,519,539</u>	<u>\$ -</u>

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

10. Retirement Benefit Plans (continued)

a. Plan Assets (continued)

	Fair value measurements at June 30, 2014			
	Pension benefits – plan assets			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category:				
Cash	\$ 241,284	\$ 241,284	\$ -	\$ -
U.S. Treasury obligations	1,564,637	-	1,564,637	-
U.S. government agencies	1,226,845	-	1,226,845	-
Municipal obligations	81,390	-	81,390	-
Fixed income mutual funds	2,143,167	2,143,167	-	-
Corporate bonds	1,581,736	-	1,581,736	-
Total	<u>\$ 6,839,059</u>	<u>\$ 2,384,451</u>	<u>\$ 4,454,608</u>	<u>\$ -</u>

b. Cash Flows

The Museum expects to contribute \$53,420 to its supplemental retirement plan in fiscal year 2015. Future benefits expected to be paid for the supplemental retirement plan are as follows:

2015	\$ 53,420
2016	51,000
2017	49,000
2018	46,000
2019	44,000
2020-2024	184,000
Total	<u>\$ 427,420</u>

The expected benefits are based on the same assumptions used to measure the Museum's benefit obligation at June 30 and include estimated future employee service.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

11. Endowments

The Museum's endowment funds consist of approximately 50 individual donor-restricted funds and board-designated funds established for a variety of purposes at June 30, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2015:				
Donor-restricted funds	\$ (7,405,886)	\$ 2,329,179	\$ 74,481,943	\$ 69,405,236
Board-designated funds	132,551	-	-	132,551
	<u>\$ (7,273,335)</u>	<u>\$ 2,329,179</u>	<u>\$ 74,481,943</u>	<u>\$ 69,537,787</u>
2014:				
Donor-restricted funds	\$ (6,399,662)	\$ 2,849,691	\$ 75,515,069	\$ 71,965,098
Board-designated funds	-	-	-	-
	<u>\$ (6,399,662)</u>	<u>\$ 2,849,691</u>	<u>\$ 75,515,069</u>	<u>\$ 71,965,098</u>

A summary of amounts classified as permanently restricted net assets and temporarily restricted net assets is as follows:

	<u>2015</u>	<u>2014</u>
Permanently restricted net assets:		
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by HUPMIFA	\$ 57,400,593	\$ 57,540,114
Beneficial interests in perpetual trusts	17,081,350	17,974,955
Total permanently restricted net assets	<u>\$ 74,481,943</u>	<u>\$ 75,515,069</u>
Temporarily restricted net assets:		
The portion of temporarily restricted net assets, excluding endowment funds, subject to purpose restrictions	\$ 7,358,517	\$ 11,405,371
The portion of the perpetual endowment funds subject to HUPMIFA with purpose restrictions	2,329,179	2,849,691
Total temporarily restricted net assets	<u>\$ 9,687,696</u>	<u>\$ 14,255,062</u>

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

11. Endowments (continued)

For the years ended June 30, 2015 and 2014, the changes in donor-restricted endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ (7,051,698)	\$ 1,619,147	\$ 71,496,802	\$ 66,064,251
Investment return:				
Dividends and interest, net of management fees and expenses	-	1,652,806	-	1,652,806
Net realized and unrealized losses	652,036	2,214,806	1,796,006	4,662,848
Total net investment return	652,036	3,867,612	1,796,006	6,315,654
Change in value of split-interest agreements	-	-	1,853,627	1,853,627
Gifts and bequests	-	-	368,634	368,634
Appropriation of endowment assets for expenditures	-	(2,637,068)	-	(2,637,068)
Endowment net assets, June 30, 2014	<u>(6,399,662)</u>	<u>2,849,691</u>	<u>75,515,069</u>	<u>71,965,098</u>
Investment return:				
Dividends and interest, net of management fees and expenses	-	2,150,860	-	2,150,860
Net realized and unrealized losses	(1,006,224)	460,763	(434,710)	(980,171)
Total net investment return	(1,006,224)	2,611,623	(434,710)	1,170,689
Change in value of split-interest agreements	-	-	(893,605)	(893,605)
Gifts and bequests	-	-	295,189	295,189
Appropriation of endowment assets for expenditures	-	(3,132,135)	-	(3,132,135)
Endowment net assets, June 30, 2015	<u>\$ (7,405,886)</u>	<u>\$ 2,329,179</u>	<u>\$ 74,481,943</u>	<u>\$ 69,405,236</u>

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

11. Endowments (continued)

a. Interpretations of Relevant Law

The Board of the Museum (Board) has interpreted Hawaii's Uniform Prudent Management of Institutional Funds Act (HUPMIFA), which was enacted by the state of Hawaii on July 1, 2009, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unless otherwise stated in the gift instrument, 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 expended by the Museum in a manner consistent with the standard of prudence prescribed by HUPMIFA. In accordance with HUPMIFA, 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 fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (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 Museum
- (7) The investment policies of the Museum

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

11. Endowments (continued)

b. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or HUPMIFA requires the Museum to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$7,405,886 and \$6,399,662 as of June 30, 2015 and 2014, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred due to the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

c. Return Objectives and Risks Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed certain published indexes while assuming a moderate level of investment risk.

d. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

e. Spending Policy

The Museum's spending policy is to distribute 5% annually from the total endowment fund as calculated by a trailing 12-quarter moving average of the total fund as determined on June 30 of the fiscal year under consideration. Over the long term, the Museum expects the current spending policy to allow its endowment to be a balance between preserving the real (after inflation) purchasing power of the endowment principal with the need to fund program-related expenses.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

12. Fair Value Measurements

a. Fair Value Hierarchy

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Museum has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety at the measurement date.

b. Fair Value of Financial Instruments

The fair value of financial instruments represents management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by management based on the best information available in the circumstances.

The carrying amounts of cash, accounts payable and accrued expenses, deferred revenue, and other liabilities approximate fair value because of the short maturity of these instruments.

The carrying amount of net contributions receivable approximates fair value as the interest rates used to discount unconditional promises to give are commensurate with fair value rates.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

12. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

Contributed rent was valued using a risk-free rate as of the date of lease to calculate present value. Management believes this approximates fair value.

The fair value of investments in marketable securities is based primarily on quoted market prices. The fair value of other investments that do not have readily determinable fair values is generally based on quoted market prices of the underlying investments and information provided by the respective external investment managers at the most recent valuation date and adjusted for cash flows from the valuation date to fiscal year-end, if applicable. As described in note 1o, the Museum utilized the net asset value per share for certain investments in alternative structures as a practical expedient for the estimation of the fair value of these investments.

The fair value of beneficial interest in perpetual trusts is based on quoted market prices of the underlying investments held by the trustee.

The carrying amount of liability under split-interest agreements approximates fair value as discount rates used are generally commensurate with current published risk-free rates.

The carrying amount of debt at June 30, 2014 approximates fair value as the interest rate is commensurate with interest rates currently offered by local lending institutions for loans with similar terms to companies with comparable credit risk.

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

12. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2015 and 2014:

	June 30, 2015	Fair Value Measurements at Reporting Date Using:		
		Level 1	Level 2	Level 3
Long-term investments:				
Cash	\$ 502,020	\$ 502,020	\$ -	\$ -
Money market fund	2,658,805	-	2,658,805	-
U.S. Treasury obligations	2,372,265	-	2,372,265	-
U.S. government agency bonds	306,021	-	306,021	-
Municipal obligations	252,944	-	252,944	-
Corporate stocks	5,483,241	5,483,241	-	-
Preferred stocks	181,886	181,886	-	-
Corporate bonds	1,699,633	-	1,699,633	-
Mutual funds (publically traded):				
Foreign equities	7,785,536	7,785,536	-	-
Fixed income	1,549,380	1,549,380	-	-
Domestic equities	10,946,962	10,946,962	-	-
Opportunistic and other	4,993,500	4,993,500	-	-
Total mutual funds	25,275,378	25,275,378	-	-
Hedge funds:				
Real estate assets	5,141,098	-	5,141,098	-
Domestic equities	4,708,716	-	4,708,716	-
Foreign equities	3,032,974	-	3,032,974	-
Emerging markets equities	1,464,332	-	1,464,332	-
Other	195,402	-	195,402	-
Total hedge funds	14,542,522	-	14,542,522	-
Fund of funds:				
Marketable alternative assets	8,860,520	-	8,860,520	-
Opportunistic and other	783,925	-	-	783,925
Total funds of funds	9,644,445	-	8,860,520	783,925
ETF and closed end fund	941,991	-	941,991	-
Total long-term investments	63,861,151	31,442,525	31,634,701	783,925
Beneficial interest in perpetual trusts	17,081,350	-	17,081,350	-
Total	\$ 80,942,501	\$ 31,442,525	\$ 48,716,051	\$ 783,925

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

12. Fair Value Measurements (continued)

b. Fair Value of Financial Instruments (continued)

	June 30, 2014	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Long-term investments:				
Cash	\$ 374,447	\$ 374,447	\$ -	\$ -
Money market fund	2,314,762	-	2,314,762	-
U.S. Treasury obligations	2,123,715	-	2,123,715	-
U.S. government agency bonds	356,680	-	356,680	-
Municipal obligations	117,377	-	117,377	-
Corporate stocks	5,370,892	5,370,892	-	-
Preferred stocks	152,831	152,831	-	-
Corporate bonds	1,471,148	-	1,471,148	-
Mutual funds (publically traded):				
Foreign equities	10,245,959	10,245,959	-	-
Fixed income	4,830,120	4,830,120	-	-
Domestic equities	8,908,562	8,908,562	-	-
Opportunistic and other	3,341,101	3,341,101	-	-
Total mutual funds	<u>27,325,742</u>	<u>27,325,742</u>	<u>-</u>	<u>-</u>
Hedge funds:				
Real estate assets	6,534,102	-	6,534,102	-
Domestic equities	5,007,638	-	5,007,638	-
Marketable alternative assets	71,043	-	-	71,043
Foreign equities	3,088,902	-	3,088,902	-
Emerging markets equities	1,810,389	-	1,810,389	-
Other	324,004	-	324,004	-
Total hedge funds	<u>16,836,078</u>	<u>-</u>	<u>16,765,035</u>	<u>71,043</u>
Fund of funds:				
Marketable alternative assets	8,261,846	-	8,261,846	-
Opportunistic and other	1,119,654	-	-	1,119,654
Total funds of funds	<u>9,381,500</u>	<u>-</u>	<u>8,261,846</u>	<u>1,119,654</u>
ETF and closed end fund	110,324	-	110,324	-
Total long-term investments	65,935,496	33,223,912	31,520,887	1,190,697
Beneficial interest in perpetual trusts				
	17,974,955	-	17,974,955	-
Total	<u>\$ 83,910,451</u>	<u>\$ 33,223,912</u>	<u>\$ 49,495,842</u>	<u>\$ 1,190,697</u>

HONOLULU ACADEMY OF ARTS DBA HONOLULU MUSEUM OF ART

Notes to Financial Statements
June 30, 2015 and 2014

12. Fair Value Measurements (continued)

b. Fair Value Hierarchy (continued)

There were no liabilities measured at fair value on a recurring basis for the years ended June 30, 2015 and 2014.

The following table presents the Museum's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC Topic 820 for the year ended June 30, 2015.

	<u>Hedge funds</u>	<u>Fund of funds</u>	<u>Total</u>
Balance at June 30, 2013	\$ 3,228,989	\$ 1,624,173	\$ 4,853,162
Realized and unrealized losses	<u>(3,157,946)</u>	<u>(504,519)</u>	<u>(3,662,465)</u>
Balance at June 30, 2014	71,043	1,119,654	1,190,697
Realized and unrealized losses	12,662	(259,558)	(246,896)
Sales	(83,705)	-	(83,705)
Transfers out	-	(76,171)	(76,171)
Balance at June 30, 2015	<u><u>\$ -</u></u>	<u><u>\$ 783,925</u></u>	<u><u>\$ 783,925</u></u>

The Museum's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2015 and 2014.

The following lists the unfunded commitments, redemption frequency, and notice period for investments for which management uses net asset value per share or its equivalent as a practical expedient to determining fair value as of June 30, 2015 and 2014:

- Investments in hedge funds, fund of funds, and open-ended interval fund, except for the investment in the marketable alternative assets hedge fund and opportunistic fund of funds, are subject to redemption policies ranging from monthly to quarterly with redemption notice periods ranging from 1 to 65 days.
- Investment in the marketable alternative assets hedge fund is subject to a redemption period of 90 days. Investments in the opportunistic fund of funds are not redeemable until 2021.

There were no unfunded commitments related to any alternative investments.

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Notes to Financial Statements
June 30, 2015 and 2014

13. Subsequent Events

The Museum has evaluated subsequent events from the balance sheet date through February 17, 2016, the date at which the financial statements were available to be issued, and determined there were no other items to disclose.

In December 2015, with the Board of Trustee's approval, the Museum entered into a new \$3 million loan agreement with a bank to finance the acquisition of real property to be used in operations.

**HONOLULU ACADEMY OF ARTS
DBA HONOLULU MUSEUM OF ART**

Schedule of Functional Expenses
Year ended June 30, 2015

	Program Services					Subtotal	Supporting Services			Total Expenses
	Education	Special Exhibitions	Curatorial and Conservation	Museum Shops and Cafes	Art Acquisitions		Management and General	Fund-Raising and Development	Subtotal	
Salaries and wages	\$ 1,818,381	\$ 874,245	\$ 1,041,191	\$ 777,669	\$ -	\$ 4,511,486	\$ 1,259,405	\$ 687,596	\$ 1,947,001	\$ 6,458,487
Employee benefits	360,991	223,155	232,346	182,542	-	999,034	273,675	151,496	425,171	1,424,205
Utilities	266,542	337,281	71,740	107,409	-	782,972	241,174	4,166	245,340	1,028,312
Professional and other services	362,654	129,472	22,697	46,277	-	561,100	232,001	66,818	298,819	859,919
Depreciation and amortization	302,416	417,191	162,190	87,835	-	969,632	31,843	19,657	51,500	1,021,132
Purchases for resale	18,541	-	-	559,047	-	577,588	-	-	-	577,588
Repairs and maintenance	100,050	134,113	43,867	57,102	-	335,132	127,908	35,375	163,283	498,415
Rental	179,687	11,695	5,139	1,994	-	198,515	19,715	2,038	21,753	220,268
Supplies	170,688	59,010	39,888	45,141	1,859	316,586	48,017	27,696	75,713	392,299
Publicity and printing	51,692	132,139	11,064	1,146	-	196,041	2,853	96,228	99,081	295,122
Insurance	30,862	62,663	72,833	14,479	-	180,837	13,720	2,255	15,975	196,812
Art acquisitions	-	-	-	-	316,955	316,955	-	-	-	316,955
Hospitality	84,633	56,972	12,658	761	-	155,024	30,807	70,216	101,023	256,047
Other	24,115	4,189	1,389	40,933	-	70,626	11,926	637	12,563	83,189
Postage and freight	16,661	42,950	6,993	3,144	9,935	79,683	1,090	10,987	12,077	91,760
Interest	-	-	-	-	-	-	66,974	15,757	82,731	82,731
Education and theatre	57,315	1,588	1,049	462	-	60,414	17,585	2,891	20,476	80,890
Retirement plans	187,957	38,191	99,071	79,367	-	404,586	(33,571)	78,653	45,082	449,668
Security	16,491	23,115	4,400	6,724	-	50,730	17,808	82	17,890	68,620
Exhibitions	134	200	-	-	-	334	-	-	-	334
Travel	26,177	7,565	12,142	1,890	-	47,774	10,116	11,474	21,590	69,364
Conservation	-	12,437	59,537	-	3,500	75,474	-	-	-	75,474
Books	5,418	151	74	55	-	5,698	182	427	609	6,307
	<u>\$ 4,081,405</u>	<u>\$ 2,568,322</u>	<u>\$ 1,900,268</u>	<u>\$ 2,013,977</u>	<u>\$ 332,249</u>	<u>\$ 10,896,221</u>	<u>\$ 2,373,228</u>	<u>\$ 1,284,449</u>	<u>\$ 3,657,677</u>	<u>\$ 14,553,898</u>