

AVALON FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

AVALON FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor’s Report.....	3-4
Financial Statements:	
Statements of Financial Position.....	5-6
Statements of Activities.....	7-8
Statements of Functional Expenses	9-10
Statements of Cash Flows.....	11
Notes to the Financial Statements.....	12-21
Supplementary Information:	
Schedule I – Schedules of Functional Revenue	23-24



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of Avalon Foundation, Inc.

We have audited the accompanying financial statements of Avalon Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, 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 audits. 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 audits 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 Avalon Foundation, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional revenue on pages 23 and 24 are 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 is fairly stated in all material respects in relation to the financial statements as a whole.

Kullman CPA, LLC

Annapolis, Maryland

October 9, 2020

AVALON FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020	2019
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 897,230	\$ 399,880
Accounts Receivable, Net	10,913	700
Contributions Receivable	104,600	12,250
Grants Receivable	23,712	37,712
Pledges Receivable	48,750	116,250
Prepaid Expenses	20,785	49,892
Total Current Assets	1,105,990	616,684
PROPERTY AND EQUIPMENT, NET	2,758,718	2,871,522
OTHER ASSETS		
Investment, at Fair Value - Endowment	100,000	-
Investments, at Fair Value - Designated	5,496	5,355
Pledges Receivable, Net	52,323	94,913
Total Other Assets	157,819	100,268
Total Assets	\$ 4,022,527	\$ 3,588,474

The accompanying notes are an integral part of the financial statements.

AVALON FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 11,648	\$ 53,407
Accrued Payroll Expenses	22,004	16,557
Sales Tax Payable	-	247
Deferred Revenue	97,241	118,027
Note Payable - Current Portion	<u>20,267</u>	<u>19,214</u>
 Total Current Liabilities	 151,160	 207,452
LONG-TERM LIABILITIES		
Note Payable, Net of Current Portion	<u>90,645</u>	<u>110,365</u>
 Total Liabilities	 241,805	 317,817
NET ASSETS		
Without Donor Restrictions	3,202,455	3,158,691
With Donor Restrictions	<u>578,267</u>	<u>111,966</u>
 Total Net Assets	 <u>3,780,722</u>	 <u>3,270,657</u>
 Total Liabilities and Net Assets	 <u>\$ 4,022,527</u>	 <u>\$ 3,588,474</u>

The accompanying notes are an integral part of the financial statements.

AVALON FOUNDATION, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and Grants:			
Corporations	\$ 61,528	\$ 6,750	\$ 68,278
Foundations	13,000	-	13,000
Government	272,354	-	272,354
Individuals	334,872	326,361	661,233
Capital Grant	16,000	-	16,000
Capital Contributions	58,787	232,043	290,830
2020 CARES Act Grants	146,200	-	146,200
	902,741	565,154	1,467,895
PROGRAM AND OTHER REVENUE			
Individual Admissions	673,881	-	673,881
Facility Rental	21,050	-	21,050
Merchandise Sales	57,800	-	57,800
Admissions Surcharge	47,820	-	47,820
Art Sales Income	416,188	-	416,188
Ticket Handling Fees	46,453	-	46,453
Net Investment Gain	-	141	141
	1,263,192	141	1,263,333
Net Assets Released from Restrictions	98,994	(98,994)	-
Total Revenue	2,264,927	466,301	2,731,228
EXPENSES			
Program Services	1,875,355	-	1,875,355
Supporting Activities:			
Management and General	269,231	-	269,231
Fundraising	76,577	-	76,577
	345,808	-	345,808
Total Expenses	2,221,163	-	2,221,163
Change in Net Assets	43,764	466,301	510,065
Net Assets, Beginning of Year	3,158,691	111,966	3,270,657
Net Assets, End of Year	\$ 3,202,455	\$ 578,267	\$ 3,780,722

The accompanying notes are an integral part of the financial statements.

AVALON FOUNDATION, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and Grants:			
Corporations	\$ 54,843	\$ 2,500	\$ 57,343
Foundations	20,895	-	20,895
Government	276,665	-	276,665
Individuals	291,421	56,403	347,824
Capital Grant	100,137	-	100,137
Capital Contributions	1,126,023	47,708	1,173,731
In-Kind Contributions	1,463	-	1,463
	1,871,447	106,611	1,978,058
PROGRAM AND OTHER REVENUE			
Individual Admissions	805,285	-	805,285
Facility Rental	17,512	-	17,512
Merchandise Sales	73,268	-	73,268
Admissions Surcharge	36,773	-	36,773
Art Sales Income	401,597	-	401,597
Ticket Handling Fees	56,452	-	56,452
Net Investment Gain	852	1,207	2,059
Other Income	998	-	998
	1,392,737	1,207	1,393,944
Net Assets Released from Restrictions	239,899	(239,899)	-
	3,504,083	(132,081)	3,372,002
EXPENSES			
Program Services	1,803,037	-	1,803,037
Supporting Activities:			
Management and General	308,347	-	308,347
Fundraising	56,122	-	56,122
	364,469	-	364,469
Total Expenses	2,167,506	-	2,167,506
Change in Net Assets	1,336,577	(132,081)	1,204,496
Net Assets, Beginning of Year	1,822,114	244,047	2,066,161
Net Assets, End of Year	\$ 3,158,691	\$ 111,966	\$ 3,270,657

The accompanying notes are an integral part of the financial statements.

AVALON FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2020

	Program Services						Fundraising	Total
	Avalon Theatre Programs	Avalon Outdoor Programs	MCTV	Programs Total	Management and General			
Advertising and Promotion	\$ -	\$ -	\$ -	\$ -	\$ 45,505	\$ -	\$ 45,505	
Art Sales Expenses	-	284,704	-	284,704	-	-	284,704	
Artist Fees	347,827	20,249	-	368,076	500	-	368,576	
Bad Debt Expense	-	-	-	-	5,000	-	5,000	
Concession Expense	31,683	-	-	31,683	-	-	31,683	
Depreciation	188,242	5,023	24,473	217,738	9,221	2,408	229,367	
Direct Mail	-	1,299	-	1,299	12,060	-	13,359	
Dues and Licenses	4,156	-	2,645	6,801	2,306	-	9,107	
Educational Expenses	185	1,528	-	1,713	6,195	-	7,908	
Employee Benefits and Payroll Taxes	62,083	16,204	13,122	91,409	13,657	11,260	116,326	
Insurance	27,678	739	3,598	32,015	1,356	354	33,725	
Interest	5,474	146	712	6,332	268	70	6,670	
Office and Other Supplies	4,735	2,364	125	7,224	5,438	-	12,662	
Production	90,362	146,293	1,775	238,430	13,120	-	251,550	
Professional Fees	1,980	3,305	-	5,285	39,628	-	44,913	
Rent and Occupancy	6,961	186	905	8,052	341	89	8,482	
Repairs and Maintenance	1,459	-	144	1,603	24,495	-	26,098	
Salaries	336,822	87,913	71,189	495,924	74,092	61,091	631,107	
Subcontracted Services	24,221	15,830	-	40,051	13,627	-	53,678	
Telephone	5,423	1,415	1,146	7,984	1,193	984	10,161	
Utilities	25,099	670	3,263	29,032	1,229	321	30,582	
Total Expenses	\$ 1,164,390	\$ 587,868	\$ 123,097	\$ 1,875,355	\$ 269,231	\$ 76,577	\$ 2,221,163	

The accompanying notes are an integral part of the financial statements.

AVALON FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2019

	Program Services						Fundraising	Total
	Avalon Theatre Programs	Avalon Outdoor Programs	MCTV	Programs Total	Management and General			
Advertising and Promotion	\$ -	\$ -	\$ -	\$ -	\$ 74,963	\$ -	\$ 74,963	
Art Sales Expenses	-	276,994	-	276,994	-	-	276,994	
Artist Fees	402,518	20,675	300	423,493	-	-	423,493	
Concession Expense	30,759	-	-	30,759	-	-	30,759	
Depreciation	92,289	2,463	11,999	106,751	4,521	1,180	112,452	
Direct Mail	378	2,275	-	2,653	5,415	-	8,068	
Dues and Licenses	5,005	-	1,830	6,835	4,281	-	11,116	
Educational Expenses	260	-	-	260	5,413	-	5,673	
Employee Benefits and Payroll Taxes	54,652	14,329	11,073	80,054	12,952	7,475	100,481	
Insurance	27,113	724	3,525	31,362	1,328	347	33,037	
Interest	7,642	204	994	8,840	374	98	9,312	
Office and Other Supplies	4,980	2,864	52	7,896	8,638	-	16,534	
Production	95,932	125,021	1,077	222,030	17,499	-	239,529	
Professional Fees	599	4,639	-	5,238	48,676	-	53,914	
Rent and Occupancy	27,969	746	3,636	32,351	1,370	358	34,079	
Repairs and Maintenance	2,463	-	-	2,463	29,076	-	31,539	
Salaries	334,258	87,636	67,724	489,618	79,217	45,723	614,558	
Subcontracted Services	29,405	13,705	240	43,350	12,415	-	55,765	
Telephone	4,858	1,274	984	7,116	1,151	665	8,932	
Utilities	21,591	576	2,807	24,974	1,058	276	26,308	
Total Expenses	\$ 1,142,671	\$ 554,125	\$ 106,241	\$ 1,803,037	\$ 308,347	\$ 56,122	\$ 2,167,506	

The accompanying notes are an integral part of the financial statements.

AVALON FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 510,065	\$ 1,204,496
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	229,367	112,452
Unrealized Gain on Investments	(15)	(118)
Changes in Operating Assets and Liabilities:		
Accounts Receivable, Net	(10,213)	5,175
Contributions Receivable	(92,350)	4,277
Grants Receivable	14,000	61,863
Pledges Receivable, Net	110,090	(209,163)
Prepaid Expenses	29,107	(2,403)
Accounts Payable and Accrued Expenses	(41,759)	20,668
Accrued Payroll Expenses	5,447	1,693
Sales Tax Payable	(247)	(300)
Deferred Revenue	(20,786)	(66,036)
	732,706	1,132,604
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income Reinvestment	(126)	(1,909)
Purchase of Investment	(100,000)	-
Proceeds from Investments	-	52,000
Purchase of Fixed Assets	(116,563)	(1,415,073)
	(216,689)	(1,364,982)
Net Cash Used by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of Notes Payable	(18,667)	(17,669)
	(18,667)	(17,669)
Net Cash Used by Financing Activities		
Net Increases (Decrease) in Cash	497,350	(250,047)
Cash, Beginning of Year	399,880	649,927
Cash, End of Year	\$ 897,230	\$ 399,880
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 6,670	\$ 9,312

The accompanying notes are an integral part of the financial statements.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Avalon Foundation, Inc. (Foundation) was established in 1993 as a non-profit corporation organized under the laws of the State of Maryland. The Foundation's mission is to foster a strong community on the Eastern Shore by creating accessible, uplifting arts, education, and cultural experiences that appeal to the interests of a diverse population and to ensure the long-term viability of the historic Avalon Theatre. It accomplishes this by presenting diversified arts and educational programs, by working with other organizations that serve the community, by serving as a facilitator and resource for community groups, and by acting as a home for arts organizations. The Foundation serves the community through three major functions: the Avalon Theatre, Avalon Outdoor Programming, and Midshore Community Television (MCTV), a public access television station. It is supported by contributions and grants, ticket sales, art sales, and other program revenue.

The Avalon Theatre (Theatre) offers extensive cultural arts on a year-round basis, showcasing national, regional, and local musical and theatrical performers. It provides outreach programming in partnership with the local schools and offers acting classes for children and theatre day camps in the summertime. The Theatre is also a base for educational and other civic forums. The Theatre's programs are a significant source of the Foundation's revenue, providing 24% and 22% of total revenue at June 30, 2020 and 2019, respectively.

Local television programming is offered through the Foundation's MCTV operations. Individuals and institutions have programming and video production opportunities available to them through MCTV.

The Foundation produces and promotes outdoor art events, such as two outdoor Summer Concert Series, the Easton Farmers' Market, the Talbot County Multicultural Festival, and Plein Air Easton, the nation's largest outdoor painting competition. The Foundation receives major support for these outdoor arts events from the Town of Easton, as well as many local businesses and individuals.

Basis of Accounting and Presentation

The financial statements are prepared on the accrual basis method of accounting.

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

- Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The net assets may be used at the discretion of the Foundation's management and the Board of Trustees.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Presentation (Continued)

- Net Assets With Donor Restriction - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash

The Foundation's Board of Trustees has established a separate bank account for capital funds. The purpose of the account is to segregate funds raised for capital improvements through donations and ticket admission surcharges. Cash consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash - Operating	\$ 365,493	\$ 113,328
Cash - Capital Fund	<u>531,737</u>	<u>286,552</u>
Total Cash	<u>\$ 897,230</u>	<u>\$ 399,880</u>

Concentration of Credit Risk

The Foundation maintains a majority of their cash balances at one financial institution. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation, up to \$250,000. The Foundation has not experienced any loss in such accounts, and believes it is not exposed to any significant credit risk on its cash balances. As of June 30, 2020 and 2019, the uninsured balances were \$643,077 and \$203,419, respectively.

Accounts, Contributions, Grants, and Pledges Receivable, Net

The Foundation reports receivables at amounts estimated to be collectible. An allowance is provided for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

For the years ended June 30, 2020 and 2019, bad debt expense amounted to \$5,000 and \$0, respectively. As of June 30, 2020 and 2019, management deemed all receivables to be collectible. Conditional promises to give are not included as support until the conditions are met. Pledges receivable that are expected to be collected within one year are recorded at net realizable value.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts, Contributions, Grants, and Pledges Receivable, Net (Continued)

Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these amounts are computed using a risk-free interest rate applicable to the year in which the contribution is made. Amortization of the discount is included in contribution revenue.

Property and Equipment, Net

Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. The Foundation's policy is to capitalize property and equipment acquired for greater than \$2,500 and expense normal repairs and maintenance as incurred.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that priorities investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an organization's assumptions (unobservable inputs). The Foundation groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

Sales Tax Payable

The Foundation presents sales tax charged on sales of merchandise and art on a net basis. Therefore, such taxes are excluded from sales, and are reflected as a liability, which is satisfied when remitted to the governmental authority.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Deferred revenue is cash received for gift certificates not yet redeemed and ticket sales and capital campaign contributions received for shows to be performed after the fiscal year end.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

In-Kind Contributions

In-kind contributions are reflected as contributions at their fair value at date of donation, and are reported as unrestricted support. The Foundation benefited from donated lodging accommodations, which were valued by the donor at \$0 and \$1,463 for the years ended June 30, 2020 and 2019, respectively. This amount has been reported as in-kind contribution revenue and rent and occupancy expense on the statements of activities and statements of functional expenses.

The Foundation recognizes the fair value of contributed services received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not contributed. The Foundation receives services from a large number of volunteers who give significant amounts of their time to the Foundation's programs and administrative activities, but which do not meet the criteria for financial statement recognition.

Program Revenue

In accordance with FASB ASC 606, *Revenue from Contracts with Customers*, the Foundation recognizes revenue upon transfer of promised goods or services to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services.

Advertising

The Foundation follows the practice of charging the cost of advertising to expense as incurred. Advertising expenses of \$45,505 and \$74,963 were incurred for the years ended June 30, 2020 and 2019, respectively, to promote the Foundation's programs.

AVALON FOUNDATION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expense	Method of Allocation
Depreciation	Square Footage Based Percentage
Employee Benefits and Payroll Taxes	Payroll Based Percentage
Insurance	Square Footage Based Percentage
Interest	Square Footage Based Percentage
Rent and Occupancy	Square Footage Based Percentage
Salaries	Payroll Based Percentage
Telephone	Payroll Based Percentage
Utilities	Square Footage Based Percentage

Income Taxes

The Foundation is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. There was no unrelated business income for the years ending June 30, 2020 and 2019. The Foundation has processes in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2 - AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at June 30:

	<u>2020</u>	<u>2019</u>
Financial Assets at Year End:		
Cash	\$ 897,230	\$ 399,880
Receivables, Net	240,298	261,825
Prepaid Expenses	20,785	49,892
Investments, at Fair Value	<u>105,496</u>	<u>5,355</u>
Total Financial Assets	1,263,809	716,952
Less Amounts Not Available to be Used for General Operations Within One Year:		
Pledges Receivable (Long-Term), Net	(52,323)	(94,913)
Board Designated Funds	(305,117)	(251,884)
Net Assets With Donor Restrictions	<u>(578,267)</u>	<u>(111,966)</u>
	<u>(935,707)</u>	<u>(458,763)</u>
Financial Assets Available to Meet General Expenditures Over the Next 12 Months	<u>\$ 328,102</u>	<u>\$ 258,189</u>

The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses. The Foundation has a \$250,000 line of credit available to meet cash flow needs.

NOTE 3 - PLEDGES RECEIVABLE, NET

Pledges receivable, net consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 48,750	\$ 116,250
Receivable in one to five years	<u>53,750</u>	<u>97,500</u>
Total Pledges Receivable	102,500	213,750
Less: Discount at 2.65%	<u>(1,427)</u>	<u>(2,587)</u>
Total Pledges Receivable, Net	<u>\$ 101,073</u>	<u>\$ 211,163</u>

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land, Buildings, and Improvements	\$ 3,017,993	\$ 2,920,274
Furniture and Fixtures	620,508	606,552
Software	<u>35,674</u>	<u>35,674</u>
Total Property and Equipment	3,674,175	3,562,500
Less: Accumulated Depreciation	<u>(915,457)</u>	<u>(690,978)</u>
Total Property and Equipment, Net	<u>\$ 2,758,718</u>	<u>\$ 2,871,522</u>

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 4 - PROPERTY AND EQUIPMENT, NET (CONTINUED)

For the years ended June 30, 2020 and 2019, depreciation expense totaled \$229,367 and \$112,452, respectively.

NOTE 5 - INVESTMENTS

The following tables present the Foundation's fair value hierarchy for assets, measured at fair value, as of June 30:

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 98	\$ -	\$ -	\$ 98
Mutual Funds	976	-	-	976
Exchange Traded Funds	3,527	-	-	3,527
Bonds	100,411	-	-	100,411
Stocks	<u>484</u>	<u>-</u>	<u>-</u>	<u>484</u>
Total Investments at Fair Value	<u>\$ 105,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,496</u>
<u>2019</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 75	\$ -	\$ -	\$ 75
Mutual Funds	1,029	-	-	1,029
Exchange Traded Funds	3,300	-	-	3,300
Bonds	415	-	-	415
Stocks	<u>536</u>	<u>-</u>	<u>-</u>	<u>536</u>
Total Investments at Fair Value	<u>\$ 5,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,355</u>

For the years ended June 30, 2020 and 2019, included in the investments was \$5,496 and \$5,355, respectively, of investments designated by Mid-Shore Community Foundation. Such investments were with donor restrictions.

In accordance with the Gift Agreement signed in January 2020, the Foundation has established a separate account to maintain the endowment investment funds. The amount maintained in this account at June 30, 2020 amounted to \$100,000.

NOTE 6 - LINE OF CREDIT

The Foundation has a \$250,000 unsecured line of credit with Shore United Bank. The line of credit bears interest at the Prime rate plus 0.50 percent per annum. The line renews annually. As of June 30, 2020 and 2019, available credit on the line was \$250,000 and the outstanding balance was \$0. No amounts were drawn on the line of credit during the years ended June 30, 2020 and 2019.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 6 - LINE OF CREDIT (CONTINUED)

The Foundation obtained a \$500,000 construction line of credit with Shore United Bank in January 2019. Advances are collateralized by assets of the Foundation, and bear interest at the Prime rate less 0.250 percent per annum. The line of credit matures on July 1, 2020. As of June 30, 2020 and 2019, available credit on the line was \$500,000 and the outstanding balance was \$0. For the years ended June 30, 2020 and 2019, the interest paid on the loan totaled \$0 and \$1,685, respectively.

NOTE 7 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable to Fred Frederick with an interest rate of 5.5% per annum and monthly installments of \$2,108 beginning July 7, 2010 and maturing on June 7, 2025. The note is secured by a lien on both the second and third floor real property owned by the Foundation.	\$ 110,912	\$ 129,579
Less: Current Portion of Note Payable	<u>20,267</u>	<u>19,214</u>
Total Long-Term Note Payable	<u>\$ 90,645</u>	<u>\$ 110,365</u>

The maturity of the note as of June 30 is as follows:

2021	\$ 20,267
2022	20,831
2023	22,006
2024	23,248
2025	24,560
Thereafter	<u>-</u>
Total	<u>\$ 110,912</u>

NOTE 8 - RETIREMENT PLAN

The Foundation has a SIMPLE IRA plan. All employees who have been employed for more than twelve months and earned more than \$5,000 annually are eligible to participate in the plan. The Foundation makes a matching contribution of 50% of employee deferrals up to 3% of a participant's annual salary. This matching contribution amounted to \$13,731 and \$8,576 for the years ended June 30, 2020 and 2019, respectively.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Foundation commands a majority vote, and owns 81.26% ownership interest in the Avalon Condominium (Condominium) at June 30, 2020 and 2019.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

The Condominium is administered by the council of unit owners, with the purpose of maintaining the Avalon Building. The financial position and operations of the Condominium at June 30 are as follows:

	<u>2020</u>	<u>2019</u>
<u>Balance Sheet:</u>		
Assets	\$ 62,158	\$ 58,797
Liabilities	\$ 853	\$ 2,168
Equity	\$ 61,305	\$ 56,629
 <u>Profit and Loss:</u>		
Revenue	\$ 9,795	\$ 34,899
Expenses	\$ (5,119)	\$ (37,294)
Net Income (Loss)	\$ 4,676	\$ (2,395)

The Condominium collects assessments from unit owners for repairs and maintenance of the Avalon Building. For the years ended June 30, 2020 and 2019, the Foundation contributed \$5,962 and \$31,714, respectively, for assessments. There was \$0 payable to and receivable from the Condominium at June 30, 2020 and 2019.

NOTE 10 - BOARD-DESIGNATED FUNDS

Board-designated funds consist of admission surcharge fees and interest income that are designated for capital improvements, as well as Ellen's Magic Fund. The capital improvement fund is maintained in a separate bank account (see Note 1). At June 30, the Board-designated funds consisted of the following:

	<u>2020</u>	<u>2019</u>
Capital Improvement Fund	\$ 292,077	\$ 238,844
Ellen's Magic Fund	13,040	13,040
	\$ 305,117	\$ 251,884
Total	\$ 305,117	\$ 251,884

NOTE 11 - NET ASSETS

Net assets released from donor restrictions for the years ended June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Building Acquisition & Improvements	\$ 40,091	\$ 174,919
July 4th Celebration	2,500	2,500
Plein Air Easton	56,403	62,480
	\$ 98,994	\$ 239,899
Total	\$ 98,994	\$ 239,899

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 11 - NET ASSETS (CONTINUED)

Net assets with donor restrictions were as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Building Acquisition & Improvements	\$ 222,287	\$ 47,708
Stoltz Listening Room (SLR) Endowment	200,000	-
SLR Renovation	17,373	-
July 4th Celebration	500	2,500
Plein Air Easton	88,250	56,403
Sponsor a Seat	37,750	-
Tickets for Teachers	1,361	-
Diversity Engagement	5,250	-
Designated Investments	<u>5,496</u>	<u>5,355</u>
Total	<u>\$ 578,267</u>	<u>\$ 111,966</u>

NOTE 12 - COVID 19

On March 13, 2020, the Executive Committee and the Executive Director made the decision to close the Avalon Theatre, and cease all programming activities due to the health crisis of COVID-19. Amidst all the mandatory shutdowns, the Foundation has proactively planned for the re-opening and fulfillment of its commitment to its mission, and has been actively focusing on new community strengthening activities. While the program revenue for the last quarter of the fiscal year was reduced, due to the closing of the Theatre and programs, the Foundation received \$136,200 of emergency funding from the Government through the Paycheck Protection Program, and \$10,000 from the Small Business Administration Emergency Disaster Relief Fund, to assist in funding its operations during the shutdown. Since July 2020, the Foundation has been operating and conducting its programs through live streams or following social distancing practices, in accordance with Maryland regulations. Management is optimistic that, while the health crisis has negatively impacted the global social economy, it has also created opportunity.

Effective June 26, 2020, the U.S. Small Business Administration authorized a loan to the Avalon Foundation, in the amount of \$150,000. These funds are to be used solely as working capital to alleviate economic injury caused by the COVID-19 disaster. The loan has an interest rate of 2.75% per annum, monthly installments of \$641 will begin June 26, 2021, and the loan matures on June 26, 2050. The loan is secured by the assets of the Foundation. The Foundation received the funds on July 6, 2020.

NOTE 13 - SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through the date that the financial statements were available to be issued. The Foundation is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to October 9, 2020 that would have a material impact on the financial statements.

SUPPLEMENTARY INFORMATION

AVALON FOUNDATION, INC.
SCHEDULE I - SCHEDULE OF FUNCTIONAL REVENUE
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services					Management and General	Total
	Avalon Theatre Programs	Avalon Outdoor Programs	MCTV	Programs Total			
Contributions with Donor Restrictions	\$ 1,361	\$ 94,000	\$ -	\$ 95,361	\$ 469,793	\$ 565,154	
Earned Income							
Individual Admissions - Shows	595,540	39,690	-	635,230	-	635,230	
Individual Admissions - Events	531	33,068	5,052	38,651	-	38,651	
Art Sales Income	-	416,188	-	416,188	-	416,188	
Admission Surcharge - Capital Campaign	47,820	-	-	47,820	-	47,820	
Other Income	124,393	559	-	124,952	351	125,303	
Total Earned Income	<u>768,284</u>	<u>489,505</u>	<u>5,052</u>	<u>1,262,841</u>	<u>351</u>	<u>1,263,192</u>	
Private Contributed Support	17,342	71,184	32,572	121,098	288,302	409,400	
Public Contributed Support	-	47,000	74,000	121,000	151,354	272,354	
Other Income							
2020 CARES Act Grants	-	-	-	-	146,200	146,200	
Capital Grant	-	-	-	-	16,000	16,000	
Capital Contributions	-	-	-	-	58,787	58,787	
Net Investment Gain	-	-	-	-	141	141	
Total Other Income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>221,128</u>	<u>221,128</u>	
Total Revenue	<u>\$ 786,987</u>	<u>\$ 701,689</u>	<u>\$ 111,624</u>	<u>\$ 1,600,300</u>	<u>\$ 1,130,928</u>	<u>\$ 2,731,228</u>	

AVALON FOUNDATION, INC.
SCHEDULE I - SCHEDULE OF FUNCTIONAL REVENUE
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services					Management and General	Total
	Avalon Theatre Programs	Avalon Outdoor Programs	MCTV	Programs Total			
Contributions with Donor Restrictions	\$ -	\$ 58,903	\$ -	\$ 58,903	\$ 47,708	\$ 106,611	
Earned Income							
Individual Admissions - Shows	704,679	33,227	2,365	740,271	-	740,271	
Individual Admissions - Events	300	56,654	8,060	65,014	-	65,014	
Art Sales Income	-	401,597	-	401,597	-	401,597	
Admission Surcharge - Capital Campaign	36,773	-	-	36,773	-	36,773	
Other Income	146,760	-	-	146,760	472	147,232	
Total Earned Income	888,512	491,478	10,425	1,390,415	472	1,390,887	
Private Contributed Support	19,644	67,372	22,741	109,757	257,402	367,159	
Public Contributed Support	-	47,000	70,000	117,000	159,665	276,665	
Other Income							
Capital Grants	-	-	-	-	100,137	100,137	
Capital Contributions	-	-	-	-	1,126,023	1,126,023	
In-Kind Contributions	-	1,463	-	1,463	-	1,463	
Net Investment Gain & Other Income	2,870	-	-	2,870	187	3,057	
Total Other Income	2,870	1,463	-	4,333	1,226,347	1,230,680	
Total Revenue	\$ 911,026	\$ 666,216	\$ 103,166	\$ 1,680,408	\$ 1,691,594	\$ 3,372,002	