

AVALON FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

AVALON FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
of Avalon Foundation, Inc.

### **Opinion**

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Avalon Foundation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Avalon Foundation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Avalon Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Avalon Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*KULLMAN CPA, LLC*

Annapolis, Maryland  
October 20, 2022

AVALON FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2022 AND 2021

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 2,689,502	\$ 1,903,983
Accounts Receivable	4,585	22,493
Contributions Receivable	58,800	-
Grants Receivable	-	31,862
Pledges Receivable, Net	-	28,250
Prepaid Expenses	27,252	23,579
Total Current Assets	2,780,139	2,010,167
PROPERTY AND EQUIPMENT, NET	2,575,577	2,788,931
OTHER ASSETS		
Contribution Receivable	100,000	100,000
Investments, at Fair Value	128,661	107,016
Pledges Receivable, Net	4,602	14,602
Total Other Assets	233,263	221,618
Total Assets	\$ 5,588,979	\$ 5,020,716

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

AVALON FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
JUNE 30, 2022 AND 2021

	2022	2021
<u>LIABILITIES AND NET ASSETS</u>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 38,798	\$ 61,793
Accrued Payroll Expenses	28,872	28,001
Sales Tax Payable	108	828
Deferred Revenue	165,605	104,005
Note Payable - Current Portion	1,887	3,253
Total Current Liabilities	235,270	197,880
<b>LONG-TERM LIABILITIES</b>		
Note Payable, Net of Current Portion	148,113	146,747
Total Liabilities	383,383	344,627
<b>NET ASSETS</b>		
Without Donor Restrictions	4,417,483	3,907,420
With Donor Restrictions	788,113	768,669
Total Net Assets	5,205,596	4,676,089
Total Liabilities and Net Assets	\$ 5,588,979	\$ 5,020,716

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

AVALON FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Contributions and Grants:			
Corporations	\$ 48,827	\$ -	\$ 48,827
Foundations	5,000	-	5,000
Government	295,947	-	295,947
Individuals	466,341	117,003	583,344
Capital Grant	6,475	-	6,475
Capital Contributions	2,876	6,874	9,750
Shuttered Venue Operators Grant	767,852	-	767,852
In-Kind Contributions	250	-	250
Total Revenue and Support	1,593,568	123,877	1,717,445
<b>PROGRAM AND OTHER REVENUE</b>			
Individual Admissions	547,543	-	547,543
Facility Rental	12,419	-	12,419
Merchandise Sales	45,312	-	45,312
Admissions Surcharge	18,490	-	18,490
Art Sales Income	499,349	-	499,349
Ticket Handling Fees	37,040	-	37,040
Net Investment Loss	-	(986)	(986)
Total Program and Other Revenue	1,160,153	(986)	1,159,167
Net Assets Released from Restrictions	103,447	(103,447)	-
Total Revenue	2,857,168	19,444	2,876,612
<b>EXPENSES</b>			
Program Services	1,858,194	-	1,858,194
Supporting Activities:			
Management and General	387,051	-	387,051
Fundraising	101,860	-	101,860
Total Support Activities	488,911	-	488,911
Total Expenses	2,347,105	-	2,347,105
Change in Net Assets	510,063	19,444	529,507
Net Assets, Beginning of Year	3,907,420	768,669	4,676,089
Net Assets, End of Year	\$ 4,417,483	\$ 788,113	\$ 5,205,596

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

AVALON FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Contributions and Grants:			
Corporations	\$ 44,099	\$ -	\$ 44,099
Foundations	5,000	-	5,000
Government	301,263	-	301,263
Individuals	420,789	113,115	533,904
Capital Grant	8,150	-	8,150
Capital Contributions	25,963	164,066	190,029
PPP Loan Forgiveness	138,410	-	138,410
COVID Relief Grants	802,008	-	802,008
	1,745,682	277,181	2,022,863
<b>PROGRAM AND OTHER REVENUE</b>			
Individual Admissions	281,046	-	281,046
Facility Rental	3,745	-	3,745
Merchandise Sales	26,372	-	26,372
Art Sales Income	240,163	-	240,163
Ticket Handling Fees	13,567	-	13,567
Net Investment Gain	-	1,971	1,971
	564,893	1,971	566,864
Net Assets Released from Restrictions	88,750	(88,750)	-
	2,399,325	190,402	2,589,727
<b>EXPENSES</b>			
Program Services	1,145,594	-	1,145,594
Supporting Activities:			
Management and General	441,773	-	441,773
Fundraising	106,993	-	106,993
	548,766	-	548,766
Total Expenses	1,694,360	-	1,694,360
Change in Net Assets	704,965	190,402	895,367
Net Assets, Beginning of Year	3,202,455	578,267	3,780,722
Net Assets, End of Year	\$ 3,907,420	\$ 768,669	\$ 4,676,089

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



AVALON FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
JUNE 30, 2022

	Program Services					Programs Total	Management and General	Fundraising	Total
	Avalon Theatre Programs	Avalon Outdoor Programs	Children's Programs	COVID Outreach	MCTV				
Advertising and Promotion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 76,279	\$ -	\$ 76,279
Art Sales Expenses	-	312,649	-	-	-	312,649	-	-	312,649
Artist Fees	184,018	44,343	31,680	36,343	-	296,384	876	-	297,260
Concession Expense	22,342	-	-	1,517	-	23,859	-	-	23,859
Condominium Assessments	7,112	298	7,451	683	1,947	17,491	683	247	18,421
Depreciation	94,245	3,955	98,762	9,058	25,808	231,828	9,058	3,272	244,158
Direct Mail	185	-	-	-	-	185	735	-	920
Dues and Licenses	2,407	-	478	-	1,733	4,618	4,007	-	8,625
Educational Expenses	850	-	-	-	-	850	2,838	-	3,688
Employee Benefits and Payroll Taxes	26,698	21,999	4,217	29,493	11,698	94,105	15,668	13,888	123,661
Insurance	14,817	622	15,527	1,424	4,057	36,447	1,424	514	38,385
Office and Other Supplies	793	4,777	2,906	231	60	8,767	5,348	-	14,115
Production	76,914	104,528	7,251	10,203	8,646	207,542	32,863	-	240,405
Professional Fees	-	2,050	50	-	-	2,100	68,068	-	70,168
Rent and Occupancy	1,938	81	2,031	186	531	4,767	187	67	5,021
Repairs and Maintenance	11,439	-	-	1,364	-	12,803	57,264	-	70,067
Salaries	158,581	130,669	25,047	175,181	69,485	558,963	93,062	82,485	734,510
Subcontracted Services	7,230	9,041	-	1,350	-	17,621	16,670	-	34,291
Telephone	2,133	1,757	337	2,356	935	7,518	1,252	1,109	9,879
Utilities	8,007	336	8,391	770	2,193	19,697	769	278	20,744
<b>Total Expenses</b>	<b>\$ 619,709</b>	<b>\$ 637,105</b>	<b>\$ 204,128</b>	<b>\$ 270,159</b>	<b>\$ 127,093</b>	<b>\$ 1,858,194</b>	<b>\$ 387,051</b>	<b>\$ 101,860</b>	<b>\$ 2,347,105</b>

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

AVALON FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
JUNE 30, 2021

	Program Services							Total
	Avalon Theatre Programs	Avalon Outdoor Programs	MCTV	COVID Outreach	Programs Total	Management and General	Fundraising	
Advertising and Promotion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,480	\$ -	\$ 23,480
Art Sales Expenses	-	155,061	-	-	155,061	-	-	155,061
Artist Fees	21,462	3,200	-	77,634	102,296	-	-	102,296
Concession Expense	5,511	-	-	12,349	17,860	-	-	17,860
Condominium Assessments	825	-	-	300	1,125	4,031	-	5,156
Depreciation	38,426	-	-	13,968	52,394	187,768	-	240,162
Direct Mail	-	787	-	-	787	660	-	1,447
Dues and Licenses	1,127	-	4,385	1,125	6,637	2,680	-	9,317
Educational Expenses	-	-	-	-	-	5	-	5
Employee Benefits and Payroll Taxes	4,837	18,939	9,767	61,401	94,944	14,246	16,462	125,652
Insurance	7,721	-	-	2,806	10,527	37,727	-	48,254
Interest	256	-	-	93	349	1,249	-	1,598
Office and Other Supplies	1,357	1,889	-	3,143	6,389	4,627	-	11,016
Production	27,346	37,400	12,554	74,204	151,504	7,629	-	159,133
Professional Fees	-	1,400	-	-	1,400	41,207	-	42,607
Rent and Occupancy	295	-	-	107	402	1,440	-	1,842
Repairs and Maintenance	32	-	-	8,672	8,704	8,498	-	17,202
Salaries	26,192	102,560	52,891	332,498	514,141	77,146	89,144	680,431
Subcontracted Services	777	5,748	-	1,950	8,475	11,703	-	20,178
Telephone	408	1,596	823	5,174	8,001	1,200	1,387	10,588
Utilities	3,372	-	-	1,226	4,598	16,477	-	21,075
<b>Total Expenses</b>	<b>\$ 139,944</b>	<b>\$ 328,580</b>	<b>\$ 80,420</b>	<b>\$ 596,650</b>	<b>\$ 1,145,594</b>	<b>\$ 441,773</b>	<b>\$ 106,993</b>	<b>\$ 1,694,360</b>

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

AVALON FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
JUNE 30, 2022 AND 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 529,507	\$ 895,367
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	244,158	240,162
Changes in Operating Assets and Liabilities:		
Accounts Receivable	17,908	(11,580)
Contributions Receivable	(58,800)	4,600
Grants Receivable	31,862	(8,150)
Pledges Receivable, Net	38,250	58,221
Prepaid Expenses	(3,673)	(2,794)
Accounts Payable and Accrued Expenses	(22,995)	50,145
Accrued Payroll Expenses	871	5,997
Sales Tax Payable	(720)	828
Deferred Revenue	61,600	6,764
	837,968	1,239,560
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income Reinvestment	3,561	(1,520)
Purchase of Investments	(25,206)	-
Purchase of Fixed Assets	(30,804)	(270,375)
	(52,449)	(271,895)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan Proceeds	-	150,000
Loan Repayments	-	(110,912)
	-	39,088
 Net Increase in Cash	785,519	1,006,753
 Cash, Beginning of Year	1,903,983	897,230
 Cash, End of Year	\$ 2,689,502	\$ 1,903,983
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest	\$ -	\$ 1,598

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, 2022 AND 2021

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 (Theatre). It accomplishes this by presenting diversified arts and educational programs, working with other organizations that serve the community, serving as a facilitator and resource for community groups, and acting as a home for arts organizations.

The Foundation has historically served the community through three major programs: the Avalon Theatre, Avalon Outdoor Programming, and Mid-Sore Community Television (MCTV), a public access television station. Beginning in fiscal year 2020, the COVID-19 health crisis impacted the operations of the Avalon Foundation in meaningful ways. The Foundation shifted resources to serve and support the community during this challenging time. Indoor programming was very limited during the pandemic. To continue to provide musical programming, it opened a 108-seat outdoor performing arts space in November 2020 (the Stoltz Pavilion) and produced 90 performances therein during fiscal year 2021 and an additional 26 performances during fiscal year 2022. Expenses associated with this programming and other COVID specific activities are reported under "COVID Outreach" in the statements of functional expenses.

The work of the Foundation is supported by contributions and grants, ticket sales, art sales, and other program revenue. The Theatre has historically offered cultural arts on a year-round basis, showcasing national, regional, and local musical and theatrical performers. The Theatre is also a base for educational and other civic forums. Local television programming is offered through the Foundation's MCTV operations. Programming and video production opportunities are available to individuals and institutions through MCTV. The Foundation also produces and promotes outdoor art events, such as the Summer Concert Series, Easton Farmers' Market, Talbot County Multicultural Festival, Plein Air Easton (the nation's largest outdoor painting competition) and its companion podcast. The Foundation receives support for these outdoor art events from the Town of Easton, Talbot County, the State of Maryland, as well as many local businesses and individuals.

Since its inception, the Foundation has strived to serve and educate the youth in its community. While the pandemic impacted the Foundation's access in schools, it continued to operate the Avalon Children's Theatre and its summer day camps for children. During fiscal year 2022, unable to host bus-in field trips, the Foundation presented several in school and virtual field trips to benefit Talbot County Public School students. Expenses associated with these activities are reported under "Children's Programs" in the statement of functional expenses for fiscal year 2022. Immaterial expenses associated with this programming in fiscal year 2021 are reported under "Avalon Theatre Programs" in the statement of functional expenses.

AVALON FOUNDATION, INC.  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
- Net Assets With Donor Restrictions - 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>2022</u>	<u>2021</u>
Cash - Operating	\$ 1,996,045	\$ 1,213,271
Cash - Capital Fund	<u>693,457</u>	<u>690,712</u>
Total Cash	<u>\$ 2,689,502</u>	<u>\$ 1,903,983</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, 2022 and 2021, the uninsured balances were \$2,411,919 and \$1,656,618, respectively.

AVALON FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 and 2021, 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. 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.

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.

Reclassification

Certain fiscal year 2021 balances have been reclassified to conform to the fiscal year 2022 financial statement presentation.

AVALON FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net

Property and equipment are stated at cost at the date of purchase, 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.

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.

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

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.

AVALON FOUNDATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The Foundation follows the practice of charging the cost of advertising to expense as incurred. Advertising expenses to promote the Foundation's programs of \$76,279 and \$23,480 were incurred for the years ended June 30, 2022 and 2021, respectively,

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
Condominium Assessments	Square Footage Based Percentage
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, 2022 and 2021. 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, 2022 AND 2021

NOTE 2 - AVAILABILITY AND LIQUIDITY

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

	<u>2022</u>	<u>2021</u>
Financial Assets at Year End:		
Cash	\$ 2,689,502	\$ 1,903,983
Receivables, Net	167,987	197,207
Investments, at Fair Value	<u>128,661</u>	<u>107,016</u>
Total Financial Assets	2,986,150	2,208,206
Less Amounts Not Available to be Used for General Operations Within One Year:		
Pledges Receivable (Long-Term), Net	(4,602)	(14,602)
Board Designated Funds	(313,555)	(304,026)
Net Assets With Donor Restrictions	<u>(788,113)</u>	<u>(768,669)</u>
	<u>(1,106,270)</u>	<u>(1,087,297)</u>
Financial Assets Available to Meet General Expenditures Over the Next 12 Months	<u>\$ 1,879,880</u>	<u>\$ 1,120,909</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 normal operating cash flow needs.

NOTE 3 - PLEDGES RECEIVABLE, NET

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

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ -	\$ 28,250
Receivable in one to five years	<u>5,000</u>	<u>15,000</u>
Total Pledges Receivable	5,000	43,250
Less: Discount at 2.65%	<u>(398)</u>	<u>(398)</u>
Total Pledges Receivable, Net	<u>\$ 4,602</u>	<u>\$ 42,852</u>

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land, Buildings, and Improvements	\$ 3,244,908	\$ 3,224,335
Furniture and Fixtures	653,685	676,341
Software	<u>35,674</u>	<u>35,674</u>
Total Property and Equipment	3,934,267	3,936,350
Less: Accumulated Depreciation	<u>(1,358,690)</u>	<u>(1,147,419)</u>
Total Property and Equipment, Net	<u>\$ 2,575,577</u>	<u>\$ 2,788,931</u>

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NOTE 4 - PROPERTY AND EQUIPMENT, NET (CONTINUED)

For the years ended June 30, 2022 and 2021, depreciation expense totaled \$244,158 and \$240,162, respectively.

On November 30, 2021, as operations resumed to normal, the Stoltz Pavilion outdoor fixed asset was taken out of service and stored for future use. Depreciation has since ceased and will only continue once it is placed back in service. At June 30, 2022, cost and accumulated depreciation on this fixed asset amount to \$220,040 and \$22,354, respectively.

NOTE 5 - INVESTMENTS, AT FAIR VALUE

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

	<u>2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 99,870	\$ -	\$ -	\$ 99,870
Bonds	22,310	-	-	22,310
Funds Invested by Mid-Shore Community Foundation	<u>6,481</u>	<u>-</u>	<u>-</u>	<u>6,481</u>
Total Investments at Fair Value	<u>\$ 128,661</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,661</u>
	<u>2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 74,897	\$ -	\$ -	\$ 74,897
Bonds	24,652	-	-	24,652
Funds Invested by Mid-Shore Community Foundation	<u>7,467</u>	<u>-</u>	<u>-</u>	<u>7,467</u>
Total Investments at Fair Value	<u>\$ 107,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,016</u>

For the years ended June 30, 2022 and 2021, included in investments was \$6,481 and \$7,467, respectively, designated by Mid-Shore Community Foundation. Such investments were with donor restrictions.

In accordance with the Gift Agreement signed in January 2020, the Foundation established a separate account to maintain the Stoltz Listening Room (SLR) endowment fund. The amount maintained in this account at June 30, 2022 and 2021 amounted to \$97,000 and \$99,548, respectively.

NOTE 6 - LINE OF CREDIT

The Foundation has a \$250,000 unsecured line of credit with Shore United Bank. The line bears interest at the prime rate plus 0.50 percent per annum, and renews annually. As of June 30, 2022 and 2021, 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, 2022 and 2021.

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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 renews annually. As of June 30, 2022 and 2021, available credit on the line was \$500,000 and the outstanding balance was \$0. No amounts were drawn on the line of credit during the years ended June 30, 2022 and 2021.

NOTE 7 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Note payable to the U.S. Small Business Administration with an interest rate of 2.75% per annum and monthly installments of \$614 beginning December 30, 2022 and matures May 26, 2051. The note is secured by a lien on all assets owned by the Foundation.	\$ 150,000	\$ 150,000
Less: Current Portion of Note Payable	<u>(1,887)</u>	<u>(3,253)</u>
Total Long-Term Note Payable	<u>\$ 148,113</u>	<u>\$ 146,747</u>

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

2023	\$ 1,887
2024	3,306
2025	3,399
2026	3,494
2027	3,592
Thereafter	<u>134,322</u>
Total	<u>\$ 150,000</u>

NOTE 8 - RETIREMENT PLAN

The Foundation has a SIMPLE IRA plan. All employees who have been employed for more than twelve months and have 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 \$15,861 and \$14,013 for the years ended June 30, 2022 and 2021, respectively.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Foundation commands a majority vote, and owned 81.26% ownership interest in the Avalon Condominium (Condominium) at June 30, 2022 and 2021. The Condominium is administered by the council of unit owners, with the purpose of maintaining the Avalon Building.

AVALON FOUNDATION, INC.  
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NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

The unaudited financial position and operations of the Condominium at June 30 are as follows:

	<u>2022</u>	<u>2021</u>
<u>Balance Sheet:</u>		
Assets	\$ 63,764	\$ 60,213
Liabilities	\$ 1,433	\$ 1,103
Equity	\$ 62,331	\$ 59,110
<u>Profit and Loss:</u>		
Revenue	\$ 22,044	\$ 7,594
Expenses	\$ (18,822)	\$ (9,790)
Net Income (Loss)	\$ 3,222	\$ (2,196)

The Condominium collects assessments from unit owners for repairs and maintenance of the Avalon Building. For the years ended June 30, 2022 and 2021, the Foundation contributed \$18,421 and \$5,156, respectively, for assessments. There was \$0 payable to and receivable from the Condominium at June 30, 2022 and 2021.

NOTE 10 - NET ASSETS

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

	<u>2022</u>	<u>2021</u>
Building Acquisition & Improvements	\$ 231,547	\$ 227,673
Stoltz Pavilion	140,983	154,680
Stoltz Listening Room (SLR) Endowment	200,000	200,000
SLR Renovation	17,373	17,373
Plein Air Easton	116,003	89,750
Sponsor a Seat	44,750	41,750
Tickets for Teachers	1,451	1,451
Diversity Engagement	28,525	28,525
Designated Investments	6,481	7,467
Jazz Weekend	1,000	-
Total	\$ <u>788,113</u>	\$ <u>768,669</u>

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NOTE 10 - NET ASSETS (CONTINUED)

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

	<u>2022</u>	<u>2021</u>
Building Acquisition & Improvements	\$ 13,697	\$ -
July 4th Celebration	-	500
Plein Air Easton	<u>89,750</u>	<u>88,250</u>
Total	<u>\$ 103,447</u>	<u>\$ 88,750</u>

NOTE 11 - 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, included in the Cash – Capital Fund amount, consisted of the following:

	<u>2022</u>	<u>2021</u>
Capital Improvement Fund	\$ 313,555	\$ 290,986
Ellen's Magic Fund	<u>13,040</u>	<u>13,040</u>
Total	<u>\$ 326,595</u>	<u>\$ 304,026</u>

NOTE 12 - DISAGGREGATION OF REVENUE

The following table provides disaggregation of revenue from contracts with customers based on the timing of revenue recognition for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Revenue recognized at a point in time:		
Individual Admissions	\$ 547,543	\$ 281,046
Merchandise Sales	45,312	26,372
Admissions Surcharge	18,490	-
Art Sales Income	499,349	240,163
Ticket Handling Fees	<u>37,040</u>	<u>13,567</u>
Total Revenue recognized at a point in time	<u>1,147,734</u>	<u>561,148</u>
Total Revenue from contracts with customers	<u>\$ 1,147,734</u>	<u>\$ 561,148</u>

Various economic factors affect revenue and cash flows. Revenue and related profit from contracts are recognized as performance obligations are satisfied over time or at a point in time. A contract's period of performance is usually one year.

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NOTE 13 - COVID-19

On March 13, 2020, the Executive Committee and the CEO made the decision to close the Avalon Theatre and cease all programming activities due to the health crisis caused by the COVID-19 pandemic. Subsequent to the shutdown, the Foundation proactively planned for ways to safely re-open and fulfill its commitment to its mission. In addition to focusing on new community strengthening activities, the Foundation opened a new outdoor performance space, the Stoltz Pavilion, that allowed for numerous performances during fiscal year 2021, albeit with significantly reduced capacity and earned income from previous years. During fiscal year 2021, the Foundation received numerous Emergency Grants totaling \$802,008 to help stabilize its operations until its earned income could recover.

On June 26, 2020, the U.S. Small Business Administration (SBA) issued a loan to the Avalon Foundation, in the amount of \$150,000. The loan was used solely as working capital to alleviate economic injury caused by the pandemic. The loan has an interest rate of 2.75% per annum and monthly installments of \$614. The SBA deferred the repayment of the loan to 30 months after the promissory note was signed. Payments are set to begin December 26, 2022, and the loan matures on November 26, 2052. The loan is secured by the assets of the Foundation.

During fiscal year 2021, the Foundation received \$138,410 of funding through the Paycheck Protection Program (PPP). The funding was forgiven during fiscal year 2021.

During fiscal year 2022, the Foundation received a Shuttered Venue Operators Grant (SVOG) in the amount of \$767,852. The SVOG funds were used to support certain labor and operating expenses during the period when earned income was negatively impacted by the pandemic.

NOTE 14 - SUBSEQUENT EVENTS

On September 15, 2022, the Foundation purchased a restaurant condominium unit and personal property therein called Bannings Tavern, at a cost of \$800,000 for real estate, and \$175,000 for the business and the building contents. This completes Avalon's purchase of the entire Theatre building. Partial financing of \$500,000 was provided by Shore United Bank. Terms of the note are twelve months of interest only payments, converting to monthly principal and interest payments at the beginning of the thirteenth month. The note is secured with a 5-year Certificate of Deposit. The note has a fixed interest rate of 2% for 5 years, based on a 19-year amortization. The Board of Trustees had long seen ownership of the entire Theatre building as integral to its strategic interest. Since community-building is the cornerstone of the Foundation's mission, community input will be solicited prior to finalizing plans for the usage of this expanded space.

The Foundation evaluated subsequent events through October 20, 2022, which is the date that the financial statements were available to be issued.