

AVALON FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

AVALON FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

KULLMAN CPA, LLC

Annapolis, Maryland
October 14, 2016

AVALON FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 747,629	\$ 671,973
Accounts Receivable, Net	2,155	3,255
Contributions Receivable	11,645	20,200
Grants Receivable	19,794	-
Pledges Receivable	53,545	57,500
Prepaid Expenses	<u>48,831</u>	<u>61,570</u>
Total Current Assets	883,599	814,498
FIXED ASSETS, NET	1,221,119	1,200,183
OTHER ASSETS		
Investments, at Fair Value	46,917	45,724
Pledges Receivable	<u>5,000</u>	<u>47,500</u>
Total Other Assets	<u>51,917</u>	<u>93,224</u>
Total Assets	<u>\$ 2,156,635</u>	<u>\$ 2,107,905</u>

See independent auditor's report and accompanying notes to financial statements

AVALON FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2016 AND 2015

	2016	2015
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 80,741	\$ 25,112
Accrued Payroll Expenses	10,357	45,099
Sales Tax Payable	382	457
Deferred Revenue	84,075	82,385
Note Payable - Current Portion	15,833	14,987
Total Current Liabilities	191,388	168,040
LONG-TERM LIABILITIES		
Note Payable, Net of Current Portion	163,425	179,259
Total Liabilities	354,813	347,299
NET ASSETS		
Unrestricted	953,134	1,041,681
Unrestricted: Board-Designated	394,720	262,069
Total Unrestricted Net Assets	1,347,854	1,303,750
Temporarily Restricted Net Assets	453,968	456,856
Total Net Assets	1,801,822	1,760,606
Total Liabilities and Net Assets	\$ 2,156,635	\$ 2,107,905

See independent auditor's report and accompanying notes to financial statements

AVALON FOUNDATION, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Contributions and Grants:			
Corporations	\$ 53,815	\$ 23,957	\$ 77,772
Foundations	20,000	-	20,000
Government	246,854	-	246,854
Individuals	253,465	48,750	302,215
Capital Contributions	8,385	149,500	157,885
In-Kind Contributions	3,250	-	3,250
Total Revenue and Support	585,769	222,207	807,976
PROGRAM AND OTHER REVENUE			
Individual Admissions	587,226	-	587,226
Facility Rental	25,138	-	25,138
Merchandise Sales	76,553	-	76,553
Admissions Surcharge	34,615	-	34,615
Art Sales Income	382,861	-	382,861
Ticket Handling Fees	47,495	-	47,495
Net Investment Gain	406	-	406
Program and Other Revenue	1,154,294	-	1,154,294
Net Assets Released from Restrictions	225,095	(225,095)	-
Total Revenue	1,965,158	(2,888)	1,962,270
EXPENSES			
Program Services	1,464,289	-	1,464,289
Supporting Activities:			
Management and General	412,949	-	412,949
Fundraising	43,816	-	43,816
Total Support Activities	456,765	-	456,765
Total Expenses	1,921,054	-	1,921,054
Change in Net Assets	44,104	(2,888)	41,216
Net Assets, Beginning of Year	1,303,750	456,856	1,760,606
Net Assets, End of Year	\$ 1,347,854	\$ 453,968	\$ 1,801,822

See independent auditor's report and accompanying notes to financial statements

AVALON FOUNDATION, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions and Grants:			
Corporations	\$ 58,962	\$ 12,600	\$ 71,562
Foundations	58,220	-	58,220
Government	228,239	-	228,239
Individuals	237,137	40,001	277,138
Capital Contributions	<u>345,774</u>	<u>404,255</u>	<u>750,029</u>
Total Revenue and Support	928,332	456,856	1,385,188
PROGRAM AND OTHER REVENUE			
Individual Admissions	526,963	-	526,963
Facility Rental	32,719	-	32,719
Merchandise Sales	64,609	-	64,609
Admissions Surcharge	25,860	-	25,860
Art Sales Income	383,346	-	383,346
Ticket Handling Fees	38,777	-	38,777
Net Investment Gain	<u>1,204</u>	<u>-</u>	<u>1,204</u>
Program and Other Revenue	1,073,478	-	1,073,478
Net Assets Released from Restrictions	<u>199,355</u>	<u>(199,355)</u>	<u>-</u>
Total Revenue	2,201,165	257,501	2,458,666
EXPENSES			
Program Services	1,353,434	-	1,353,434
Supporting Activities:			
Management and General	299,114	-	299,114
Fundraising	<u>40,967</u>	<u>-</u>	<u>40,967</u>
Total Support Activities	<u>340,081</u>	<u>-</u>	<u>340,081</u>
Total Expenses	<u>1,693,515</u>	<u>-</u>	<u>1,693,515</u>
Change in Net Assets	507,650	257,501	765,151
Net Assets, Beginning of Year	<u>796,100</u>	<u>199,355</u>	<u>995,455</u>
Net Assets, End of Year	<u>\$ 1,303,750</u>	<u>\$ 456,856</u>	<u>\$ 1,760,606</u>

See independent auditor's report and accompanying notes to financial statements

AVALON FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2016

	Program Services						Total
	Avalon Theatre Programs	Avalon Outdoor Programs	MCTV	Programs Total	Management and General	Fundraising	
Advertising and Promotion	\$ -	\$ -	\$ -	\$ -	\$ 86,675	\$ -	\$ 86,675
Art Sales Expenses	-	261,497	-	261,497	-	-	261,497
Artist Fees	337,601	18,344	-	355,945	200	-	356,145
Benefits and Payroll Taxes	34,408	12,510	6,957	53,875	10,862	5,113	69,850
Concession Expense	35,301	-	-	35,301	-	-	35,301
Depreciation	59,222	1,623	7,626	68,471	2,907	765	72,143
Direct Mail	394	89	-	483	-	-	483
Dues and Licenses	4,081	-	2,250	6,331	1,987	-	8,318
Educational Expenses	8,112	354	-	8,466	90	-	8,556
Insurance	9,718	3,533	1,965	15,216	3,068	1,444	19,728
Interest	8,463	232	1,090	9,785	415	109	10,309
Office and Other Supplies	3,670	3,776	569	8,015	9,509	-	17,524
Other	75	100	-	175	678	-	853
Postage and Printing	68	133	-	201	1,495	-	1,696
Production	73,901	117,233	90	191,224	7,718	-	198,942
Professional Fees	-	3,050	-	3,050	43,285	-	46,335
Rent and Occupancy	8,960	742	-	9,702	43,163	-	52,865
Repairs and Maintenance	2,106	425	3,729	6,260	1,705	-	7,965
Salaries	239,320	87,012	48,389	374,721	75,547	35,563	485,831
Special Condo Assessments	-	-	-	-	106,090	-	106,090
Subcontracted Services	16,904	10,182	600	27,686	15,401	-	43,087
Telephone	3,893	1,416	787	6,096	1,229	579	7,904
Utilities	18,845	517	2,427	21,789	925	243	22,957
Total Expenses	\$ 865,042	\$ 522,768	\$ 76,479	\$ 1,464,289	\$ 412,949	\$ 43,816	\$ 1,921,054

See independent auditor's report and accompanying notes to financial statements

AVALON FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2015

	Program Services						Total
	Avalon Theatre Programs	Avalon Outdoor Programs	MCTV	Programs Total	Management and General	Fundraising	
Advertising and Promotion	\$ -	\$ -	\$ -	\$ -	\$ 92,175	\$ -	\$ 92,175
Art Sales Expenses	-	259,150	-	259,150	-	-	259,150
Artist Fees	286,801	13,132	-	299,933	2,756	-	302,689
Bad Debt Expense	-	-	-	-	2,500	-	2,500
Benefits and Payroll Taxes	37,497	12,333	7,437	57,267	11,437	5,370	74,074
Concession Expense	36,549	-	-	36,549	-	-	36,549
Depreciation	59,872	949	3,865	64,686	2,238	881	67,805
Direct Mail	207	2,004	-	2,211	-	-	2,211
Dues and Licenses	3,075	-	1,800	4,875	1,600	-	6,475
Educational Expenses	1,665	-	-	1,665	4,071	-	5,736
Insurance	9,162	3,014	1,817	13,993	2,795	1,312	18,100
Interest	9,854	156	636	10,646	369	145	11,160
Office and Other Supplies	6,860	3,115	613	10,588	4,070	-	14,658
Other Expenses	-	20	-	20	1,533	-	1,553
Postage and Printing	30	40	-	70	1,037	-	1,107
Production	61,595	115,452	-	177,047	9,323	-	186,370
Professional Fees	-	3,050	-	3,050	40,490	-	43,540
Rent and Occupancy	1,942	969	-	2,911	35,954	-	38,865
Repairs and Maintenance	3,276	-	1,573	4,849	3,537	-	8,386
Salaries	226,064	74,357	44,838	345,259	68,953	32,378	446,590
Subcontracted Services	14,911	16,631	584	32,126	12,288	-	44,414
Telephone	4,241	1,395	841	6,477	1,294	608	8,379
Utilities	18,569	294	1,199	20,062	694	273	21,029
Total Expenses	\$ 782,170	\$ 506,061	\$ 65,203	\$ 1,353,434	\$ 299,114	\$ 40,967	\$ 1,693,515

See independent auditor's report and accompanying notes to financial statements

AVALON FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 41,216	\$ 765,151
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities:		
Depreciation	72,143	67,805
Reduction in Forgivable Loan	-	(20,000)
Unrealized Loss on Investments	763	304
Bad Debt Expense	-	2,500
Changes in Operating Assets and Liabilities:		
Accounts Receivable	1,100	9,775
Contributions Receivable	8,555	40,167
Pledges Receivable	46,455	(105,000)
Grants Receivable	(19,794)	-
Prepaid Expenses	12,739	(23,208)
Accounts Payable and Accrued Expenses	20,812	12,082
Deferred Revenue	1,690	33,058
Net Cash Provided by Operating Activities	185,679	782,634
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income Reinvestment	(1,956)	(1,972)
Purchase of Fixed Assets	(93,079)	(494,695)
Net Cash Used by Investing Activities	(95,035)	(496,667)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Accrued Interest	-	(334)
Payments of Notes Payable	(14,988)	(14,187)
Net Cash Used by Financing Activities	(14,988)	(14,521)
Net Increase in Cash and Cash Equivalents	75,656	271,446
Cash and Cash Equivalents, Beginning of Year	671,973	400,527
Cash and Cash Equivalents, End of Year	\$ 747,629	\$ 671,973
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 10,309	\$ 11,160

See independent auditor's report and accompanying notes to financial statements

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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 strives to improve the quality of life for the residents of the Town of Easton, Talbot County, and the entire Eastern Shore of Maryland. 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. 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 32% of total revenue.

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

The Foundation receives funding from the Town of Easton to produce and promote outdoor art events, such as the outdoor Summer Concert Series, the Easton Farmers' Market, the Multi-Cultural Festival, the Arts in Easton Banner Auction, and the Plein Air-Easton! art festival and competition.

Basis of Accounting

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

Basis of Presentation

The Foundation classifies resources for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. The Foundation records unconditional promises to give (pledges) as receivables and revenue, and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows.

- Permanently Restricted - the portion of the net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

AVALON FOUNDATION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- Temporarily Restricted - the portion of the net assets resulting from contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.
- Unrestricted - the portion of the net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets are shown as unrestricted contributions in the statement of activities if the restriction is fulfilled in the same year in which the contribution is received. During the years ended June 30, 2016 and 2015, there were no permanently restricted net assets.

Cash and Cash Equivalents

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 and cash equivalents consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Cash - Unrestricted	\$ 365,949	\$ 422,944
Cash - Capital Fund	<u>381,680</u>	<u>249,029</u>
Total Cash and Cash Equivalents	<u>\$ 747,629</u>	<u>\$ 671,973</u>

Accounts, Contributions, Grants, and Pledges Receivable, Net

The Foundation reports receivables at amounts estimated to be collectible. The estimated amount of uncollectible accounts is determined by an analysis of the balance in the receivables, and the Foundation's prior collection history. 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. Accounts receivable are presented net of the allowance for doubtful accounts of \$0 and \$2,500 as of June 30, 2016 and 2015, respectively.

Fixed Assets and Depreciation

Fixed assets are recorded at cost, if purchased, and fair value, if donated. Expenditures for repairs and maintenance are charged to expense as incurred. Purchases with a useful life greater than one year are capitalized. The costs of fixed assets are depreciated using the straight-line method over their estimated useful lives.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tier hierarchy was established to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three levels listed below.

- Level 1 – quoted prices in active markets for identical investments.
- Level 2 – quoted prices for similar investments in active or inactive markets.
- Level 3 – management's assumptions about the assumptions market participants would utilize in pricing the investments.

Sales and 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 represents cash received from ticket sales on shows to be performed after the fiscal year end.

Contributions

Unconditional promises to give are recognized as revenue when the underlying promises are received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated asset. 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 statement of activities and changes in net assets as net assets released from restrictions.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions and Contributed Services

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 \$3,250 for the year ended June 30, 2016. This amount has been reported as in-kind contribution revenue and rent and occupancy expense on the statements of activities. The value of the donated lodging accommodations for the year ended June 30, 2015 were immaterial; and therefore, are not reflected in the financial statements.

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.

Advertising

The Foundation follows the practice of charging the cost of advertising to expense as incurred. Advertising expenses of \$86,675 and \$92,175 were incurred for the years ended June 30, 2016 and 2015, respectively, to promote the Foundation's programs.

Income Taxes

The Foundation is exempt from federal and state taxation under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(a)(vi).

Uncertain Tax Positions

The Foundation adopted FASB ASC 740, which prescribed how an entity should measure, recognize, present, and disclose in its financial statements uncertain tax positions that the Foundation has taken, or expects to take, on a tax return. Under this standard, the Foundation recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. For the years ended June 30, 2016 and 2015, the Foundation has determined that no material uncertain positions qualify for either recognition or disclosure in the financial statements. The Foundation's income tax filings are subject to audit by the IRS. The open audit periods are years 2012 to 2014.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from the estimates that were used.

Functional Expenses

The cost of providing programs and other activities have been summarized on a functional basis on the statement of activities. As such, certain costs have been allocated among the program and supporting services benefited. Certain cost allocations require the use of management estimates. Program service expenses relate directly to the services provided by the Foundation for the education, presentation, and production of performing arts. Support activity expenses relate to the programs in a supporting capacity.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30, 2016:

Receivable in less than one year	\$	53,545
Receivable in one to five years		<u>5,000</u>
Total Pledges Receivable	\$	<u><u>58,545</u></u>

Uncollectible pledges are not expected to be significant. At June 30, 2016, the discount to net present value was not significant.

NOTE 3 - FIXED ASSETS, NET

The following is a summary of fixed assets at June 30:

	<u>2016</u>	<u>2015</u>
Buildings	\$ 1,105,457	\$ 1,088,875
Land	103,627	103,627
Building Improvements	122,170	59,556
Furniture and Fixtures	411,663	397,779
Software	<u>35,674</u>	<u>35,674</u>
Total Fixed Assets	1,778,591	1,685,511
Less: Accumulated Depreciation	<u>(557,472)</u>	<u>(485,328)</u>
Fixed Assets, Net	<u><u>\$ 1,221,119</u></u>	<u><u>\$ 1,200,183</u></u>

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 3 - FIXED ASSETS, NET (CONTINUED)

Depreciation expense for the years ended June 30, 2016 and 2015 was \$72,143 and \$67,805, respectively. Construction in progress on planned renovations to the building amounted to \$41,775 at June 30, 2016 and 2015, and is included in the Buildings account. Depreciation will commence once the renovations are completed.

NOTE 4 - INVESTMENTS

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

<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 524	\$ -	\$ -	\$ 524
Mutual Funds	8,055	-	-	8,055
Hedge Funds	-	1,037	-	1,037
Exchange Traded Funds	26,498	-	-	26,498
Bonds	4,056	-	-	4,056
Stocks	<u>6,747</u>	<u>-</u>	<u>-</u>	<u>6,747</u>
Total Investments at Fair Value	<u>\$ 45,880</u>	<u>\$ 1,037</u>	<u>\$ -</u>	<u>\$ 46,917</u>

<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 578	\$ -	\$ -	\$ 578
Mutual Funds	7,452	-	-	7,452
Hedge Funds	-	1,153	-	1,153
Exchange Traded Funds	27,905	-	-	27,905
Bonds	2,978	-	-	2,978
Stocks	<u>5,658</u>	<u>-</u>	<u>-</u>	<u>5,658</u>
Total Investments at Fair Value	<u>\$ 44,571</u>	<u>\$ 1,153</u>	<u>\$ -</u>	<u>\$ 45,724</u>

Investment income consisted of the following for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Interest and Dividend Income	\$ 1,169	\$ 1,070
Realized Gain	-	438
Unrealized Gain (Loss)	<u>(763)</u>	<u>(304)</u>
Net Investment Gain	<u>\$ 406</u>	<u>\$ 1,204</u>

Investment fees for the years ended June 30, 2016 and 2015 were \$509 and \$498, respectively.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5 - LINE OF CREDIT

The Foundation has a \$250,000 unsecured line of credit with The Talbot Bank. The line of credit bears interest at 5.2% per annum. This line renews annually. As of June 30, 2016 and 2015, 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, 2016 and 2015.

NOTE 6 - FORGIVABLE LOAN

The Foundation entered into an agreement and received \$100,000 from a donor in the form of a forgivable loan on July 11, 2009. The loan was for the construction of a performance venue on the second floor of the Avalon Theatre. The loan was amortized over five years with interest at 5% per annum. The donor agreed to forgive \$20,000 of the loan annually commencing October 1, 2010. The Foundation was obligated to pay the interest on the loan balance outstanding on a monthly basis. The note was completely forgiven on October 1, 2015.

NOTE 7 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	<u>2016</u>	<u>2015</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.	\$ <u>179,258</u>	\$ <u>194,246</u>
Total Note Payable	179,258	194,246
Less: Current Portion of Note Payable	<u>15,833</u>	<u>14,987</u>
Total Long-Term Note Payable	\$ <u><u>163,425</u></u>	\$ <u><u>179,259</u></u>

The maturity of the note is as follows:

2017	\$	15,833
2018		16,726
2019		17,669
2020		18,666
2021 and Thereafter		<u>110,364</u>
Total	\$	<u><u>179,258</u></u>

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
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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 \$5,084 and \$4,624 for the years ended June 30, 2016 and 2015, respectively.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

At June 30, temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Building Acquisition & Improvements	\$ 381,261	\$ 404,255
July 4th Celebration	2,000	2,900
Plein Air – Easton!	56,950	49,701
MCTV Projects	<u>13,757</u>	<u>-</u>
Total	<u>\$ 453,968</u>	<u>\$ 456,856</u>

NOTE 10 - UNRESTRICTED BOARD-DESIGNATED NET ASSETS

Board-designated net assets 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>2016</u>	<u>2015</u>
Capital Improvement Fund	\$ 381,680	\$ 249,029
Ellen's Magic Fund	<u>13,040</u>	<u>13,040</u>
Total	<u>\$ 394,720</u>	<u>\$ 262,069</u>

NOTE 11 - OPERATING LEASES

The Foundation leased the Avalon Theatre from the Town of Easton on a month-to-month basis. The Foundation was responsible for substantially all routine expenses plus annual rental payments totaling \$24,000. All, or part, of the annual rental payments may be forgiven or subject to rebate by the Town of Easton based upon the extent to which the theatre is used for official (1) Town of Easton functions, (2) quasi-town functions, or (3) events sponsored by organizations which do not have the ability to pay for use of the premises and which primarily benefit the citizens of the Town of Easton. For the years ended June 30, 2016 and 2015, the Foundation was not required to pay any annual rent to the Town of Easton.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11 - OPERATING LEASES (CONTINUED)

The lease agreement ended on June 5, 2015, when the Foundation purchased the building from the Town of Easton.

NOTE 12 - SIGNIFICANT CONCENTRATIONS

From time to time, during the fiscal year, cash held at financial institutions exceeded the FDIC insured limit of \$250,000. The Foundation has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

NOTE 13 - RECLASSIFICATION

Certain 2015 balances have been reclassified to conform to the 2016 financial statements presentation.

NOTE 14 - 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 14, 2016 that would have a material impact on the financial statements.