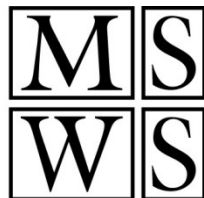


MARYLAND HALL FOR THE CREATIVE ARTS, INC.
FINANCIAL STATEMENTS
JUNE 30, 2021

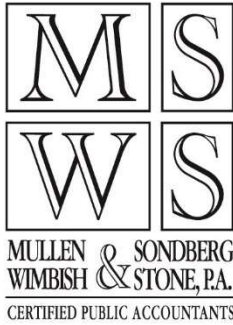


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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888 Bestgate Road • Suite 310 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Maryland Hall for the Creative Arts, Inc.
Annapolis, Maryland

We have audited the accompanying financial statements of Maryland Hall for the Creative Arts, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
Maryland Hall for the Creative Arts, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maryland Hall for the Creative Arts, Inc., as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Maryland Hall for the Creative Arts, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
October 27, 2021

Maryland Hall for the Creative Arts, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2021

ASSETS		
	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 229,305	\$ 637,617
Investments	1,537,115	1,680,375
Accounts and grants receivable	587,574	68,607
Employee receivable	-	7,909
Pledges receivable, net	-	25,877
Prepaid expenses	14,480	18,018
Total current assets	2,368,474	2,438,403
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	12,515,662	12,885,628
OTHER ASSETS		
Investments, endowment	75,805	75,798
Pledges receivable, long-term, net	-	5,780
Total other assets	75,805	81,578
Total assets	\$ 14,959,941	\$ 15,405,609
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 42,646	\$ 116,323
Accrued expenses	36,086	44,817
Capital lease obligations	4,084	3,167
Deferred revenue	64,455	66,949
Refundable advance - Paycheck Protection Program	66,548	61,083
Total current liabilities	213,819	292,339
LONG-TERM LIABILITIES		
Capital lease obligations	11,389	15,964
Total liabilities	225,208	308,303
NET ASSETS		
Net assets without donor restrictions:		
Undesignated	(76,250)	(345,213)
Board-designated	783,633	976,729
Net investment in property and equipment	12,500,189	12,866,497
Total net assets without donor restrictions	13,207,572	13,498,013
Net assets with donor restrictions	1,527,161	1,599,293
Total net assets	14,734,733	15,097,306
Total liabilities and net assets	\$ 14,959,941	\$ 15,405,609

The accompanying notes are an integral part of these financial statements

Maryland Hall for the Creative Arts, Inc.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2021
With Summarized Financial Information for the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	2021	2020
REVENUES, GAINS AND OTHER SUPPORT				
Grants - operating	\$ 591,496	\$ -	\$ 591,496	\$ 385,067
Tuition, net of refunds	358,446	-	358,446	649,651
Contributions and special events	213,794	-	213,794	501,163
Grants - capital	191,770	-	191,770	250,000
Donated materials, facilities and services	190,334	-	190,334	164,716
Other rental income	31,279	-	31,279	47,681
Performing arts	22,445	-	22,445	245,597
Visual arts	6,179	-	6,179	20,976
Memberships	1,970	-	1,970	54,310
Vending	1,618	-	1,618	42,228
Investment return, net	60	7	67	12,526
Loss on disposal of property and equipment	(19,236)	-	(19,236)	-
	<u>1,590,155</u>	<u>7</u>	<u>1,590,162</u>	<u>2,373,915</u>
Net assets released from restriction	72,139	(72,139)	-	-
Total revenues, gains and other support	<u>1,662,294</u>	<u>(72,132)</u>	<u>1,590,162</u>	<u>2,373,915</u>
EXPENSES				
Program services				
Education	664,164	-	664,164	890,941
Performing arts	846,124	-	846,124	1,077,292
Visual arts	168,843	-	168,843	145,550
Total program services	<u>1,679,131</u>	<u>-</u>	<u>1,679,131</u>	<u>2,113,783</u>
Supporting services				
Management and general	401,637	-	401,637	533,280
Fundraising	217,905	-	217,905	395,711
Total supporting services	<u>619,542</u>	<u>-</u>	<u>619,542</u>	<u>928,991</u>
Total expenses	<u>2,298,673</u>	<u>-</u>	<u>2,298,673</u>	<u>3,042,774</u>
Change in net assets before other changes	<u>(636,379)</u>	<u>(72,132)</u>	<u>(708,511)</u>	<u>(668,859)</u>
OTHER CHANGES IN NET ASSETS				
Other grant income - Employee Retention Credit	148,617	-	148,617	-
Other grant income - Paycheck Protection Program	197,321	-	197,321	141,703
Total other changes in net assets	<u>345,938</u>	<u>-</u>	<u>345,938</u>	<u>141,703</u>
Change in net assets	(290,441)	(72,132)	(362,573)	(527,156)
NET ASSETS AT BEGINNING OF YEAR	<u>13,498,013</u>	<u>1,599,293</u>	<u>15,097,306</u>	<u>15,624,462</u>
NET ASSETS AT END OF YEAR	<u>\$13,207,572</u>	<u>\$ 1,527,161</u>	<u>\$14,734,733</u>	<u>\$15,097,306</u>

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

Maryland Hall for the Creative Arts, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021
With Summarized Financial Information for the Year Ended June 30, 2020

	Program Services			Total Program Services	Supporting Services		Total	
	Education	Performing Arts	Visual Arts		Management and General	Fundraising	2021	2020
Salaries	\$ 136,814	\$ 371,291	\$ 48,865	\$ 556,970	\$ 56,757	\$ 74,746	\$ 688,473	\$ 958,568
Payroll taxes	10,866	31,182	2,647	44,695	4,944	5,977	55,616	73,965
Fringe benefits	11,839	32,130	4,229	48,198	4,912	6,468	59,578	64,618
Total salaries and related expenses	159,519	434,603	55,741	649,863	66,613	87,191	803,667	1,097,151
Depreciation	175,030	200,035	56,260	431,325	181,282	12,502	625,109	584,289
Contracted services	221,114	22,950	-	244,064	46,163	7,000	297,227	553,190
Custodial services	38,069	43,507	12,236	93,812	39,428	2,719	135,959	135,586
Technology expenses	20,762	56,346	7,416	84,524	8,613	11,343	104,480	112,217
Special events	1,978	365	20,345	22,688	1,145	35,702	59,535	158,290
Utilities	15,224	17,400	4,894	37,518	15,769	1,088	54,375	29,130
Telephone	5,639	15,303	2,014	22,956	2,339	3,081	28,376	18,735
Office expense	1,756	8,489	1,074	11,319	5,084	9,790	26,193	22,313
Bad debt expense	-	-	-	-	-	25,657	25,657	61,753
Insurance	4,316	11,713	1,542	17,571	1,790	2,358	21,719	26,149
Repairs and maintenance	5,891	6,170	1,581	13,642	5,258	351	19,251	28,554
Professional fees	-	-	-	-	18,695	102	18,797	31,859
Other expenses	4,308	2,277	4,818	11,403	3,496	3,175	18,074	32,666
Advertising and promotion	5,626	2,280	700	8,606	1,477	4,093	14,176	15,428
Credit card fees	4,311	3,832	-	8,143	239	3,592	11,974	38,780
Performing/visual arts expense	-	8,800	-	8,800	-	-	8,800	34,730
Small equipment/rental	176	8,253	63	8,492	73	96	8,661	29,883
Dues and subscriptions	244	709	87	1,040	2,181	3,343	6,564	3,414
Printing	201	544	72	817	83	4,722	5,622	24,496
CRAB radio expense	-	2,548	-	2,548	-	-	2,548	2,196
Interest expense	-	-	-	-	1,909	-	1,909	1,965
Total expenses	\$ 664,164	\$ 846,124	\$ 168,843	\$ 1,679,131	\$ 401,637	\$ 217,905	\$ 2,298,673	\$ 3,042,774

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

Maryland Hall for the Creative Arts, Inc.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (362,573)	\$ (527,156)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	625,109	584,289
Loss on disposal of property and equipment	19,236	-
Realized and unrealized (gain) loss on investments	(16)	3,528
Change in present value discount on pledges	-	(8,671)
Contributions and grants restricted for long-term purposes	(191,770)	(191,118)
Donated investments	(10,508)	(44,367)
(Increase) decrease in operating assets:		
Accounts and other receivables	(319,288)	102,232
Pledges receivable	25,657	20,000
Prepaid expenses	3,538	3,300
Increase (decrease) in operating liabilities:		
Accounts payable	(67,407)	(7,248)
Accrued expenses	(8,731)	(30,174)
Deferred revenue and refundable advances	2,971	(36,013)
Net cash used in operating activities	<u>(283,782)</u>	<u>(131,398)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments (including income reinvested)	(1,989)	(715,861)
Redemption of investments	155,766	19,981
Acquisition of property and equipment	<u>(280,649)</u>	<u>(572,348)</u>
Net cash used in investing activities	<u>(126,872)</u>	<u>(1,268,228)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collections of contributions and grants restricted for long-term purposes	6,000	1,368,548
Principal payments on capital lease obligations	<u>(3,658)</u>	<u>(3,569)</u>
Net cash provided by financing activities	<u>2,342</u>	<u>1,364,979</u>
Net change in cash and cash equivalents	(408,312)	(34,647)
Cash and cash equivalents at beginning of year	<u>637,617</u>	<u>672,264</u>
Cash and cash equivalents at end of year	<u>\$ 229,305</u>	<u>\$ 637,617</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 1,909</u>	<u>\$ 1,965</u>

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

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

Maryland Hall for the Creative Arts, Inc. (the Organization) operates as a voluntary, nonprofit, non-stock corporation chartered under the laws of the State of Maryland. The Organization's purpose is to provide a community arts programming which meets the cultural needs and interests of the residents of Anne Arundel County. The Organization provides visual, performing, and creative arts to the community through education and diverse special art programs and events. The Organization's primary sources of revenue include state and local government grants, contributions, and fees from tuition and ticket sales.

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Revenue Recognition – Contributions and Special Events

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

Contributions and special event revenue with a measurable performance or other barrier and a right of return are considered conditional contributions and are not recognized until the conditions on which they depend have been met.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Cont.)

Revenue Recognition - Grants

Grants are reported as revenue based on the terms and conditions of each specific grant agreement with the grantor. Grants that are earned based on the expenditure of specific expenses are recorded as revenue when the expenses are incurred and the Organization has an unconditional right to the grant funds. Unexpended grant awards under these arrangements are classified as refundable advances in the statement of financial position until they are earned. Grants that are received with grantor restrictions or stipulations regarding the use of the grant funds are classified as grants with donor restrictions. When a donor restriction expires, that is, when the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted grants whose restrictions are met in the same year are reported as support without donor restrictions.

Grants with a measurable performance or other barrier and a right of return are considered conditional contributions and are not recognized until the conditions on which they depend have been met.

Revenue Recognition – Tuition

Revenue from contracts for student tuition is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing instruction and other program services. Revenue is recognized as performance obligations are satisfied, which is ratably over the academic cycle based on time elapsed.

The Organization has various billing cycles and the majority of the Organization's instructional programs are completed within the fiscal year. Deferred revenue is recorded for amounts received by the Organization prior to the end of the fiscal year for educational instruction commencing in the following fiscal year.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Cont.)

Classification of Net Assets

The Organization is required 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 Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to restrictions and stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature: those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Functional Expenses

Accounting principles generally accepted in the United States of America require all nonprofit organizations to present their expenses on a functional basis, separating program services from management and general and fundraising expenses. Functional expenses are either charged directly to program services as incurred or allocated based on estimates of time and effort and square footage for items such as depreciation, custodial services, technology expenses, repairs and maintenance, credit card fees, advertising and promotion, utilities, insurance, and telephone.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents represent deposits in checking and savings accounts and certificates of deposit with original maturities of ninety days or less, except those that are part of an investment portfolio.

Investments

Investments are presented in the financial statements at fair value. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the statement of activities.

Accounts and Grants Receivable

Accounts receivable consists of amounts due from various customers for services provided by program activities. Grants receivable consists of amounts due from grantors. The Organization considers all accounts and grants receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been established.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Cont.)

Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and recognized as revenue in the period received. Generally, the Organization records pledges receivable as net assets with donor restrictions. Upon collection of the pledge, the assets are transferred to the appropriate net asset category based on the donor's intent. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. At June 30, 2021 and 2020, pledges receivable is presented net of an allowance of uncollectible accounts of \$-0- and \$3,874, respectively.

Property and Equipment

Property and equipment acquisitions over \$1,000 are capitalized and carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gifts of long-lived assets such as land, buildings or equipment are recorded at their fair values and reported as support without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used.

Donated Services, Materials, and Equipment

Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements included in donations are offset by like amounts included in expenses or additions to property and equipment. A substantial number of volunteers have donated significant amounts of their time to the Organization's program services and in its fundraising campaigns. No amounts have been recognized in the statement of activities because the criteria for recognition have not been satisfied.

Income Tax Status

Maryland Hall for the Creative Arts, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. The Organization is exempt from paying federal income tax on any income except unrelated business income. No provision has been made for income taxes, as the Organization has had no significant unrelated business income.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Cont.)

Income Taxes

The Organization follows the guidance of *ASC 740-10*, “*Accounting for Uncertainty in Income Taxes*” which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of nonprofit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Organization’s financial statements.

The Organization analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax-exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Organization does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Organization’s financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2018 remain subject to examination by federal and state authorities.

Advertising Costs

The Organization expenses advertising costs when incurred. Advertising expenses were \$14,176 and \$15,428 for the years ended June 30, 2021 and 2020, respectively.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating activities and other changes in net assets. Operating activities consist of those items attributable to the Organization’s ongoing program services. Other changes in net assets are limited to resources from other activities considered to be of a more unusual or nonrecurring nature. Other changes in net assets for the year ending June 30, 2021 consist of other grant income from the Paycheck Protection Program (See Note 17) and other grant income from the Employee Retention Credit program (See Note 18).

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Cont.)

New Accounting Pronouncement

On July 1, 2020, the Organization adopted *ASU 2014-09, Revenue Recognition (Topic 606) – “Revenue from Contracts with Customers”*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. *ASU 2014-09* outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. The Organization adopted *ASU 2014-09* and related amendments using the retrospective method. Accordingly, the comparative financial statements for the year ending June 30, 2020 have been adjusted to fully conform with *ASU 2014-09*. The adoption of *ASU 2014-09* did not have any impact on the Organization’s financial position, results of operations or cash flows, and therefore did not result in a prior period adjustment. The adjustments to the year ending June 30, 2020 consisted of enhanced disclosures regarding revenue recognition and timing of cash flows only.

Note 2 - Availability and Liquidity

The following represents the Organization’s financial assets at June 30:

Financial assets at year end:	2021	2020
Cash and cash equivalents	\$ 229,305	\$ 637,617
Investments	1,612,920	1,756,173
Accounts and other receivables	587,574	76,516
Pledges receivable, net	-	31,657
Total financial assets	2,429,799	2,501,963
Less amounts not available to be used within one year due to donor-imposed restrictions:		
Donor-restricted contributions and grants	1,441,356	1,487,715
Donor-restricted endowment funds	75,805	75,798
Pledges receivable, long-term, net	-	5,780
Total amounts not available to be used within one year due to donor-imposed restrictions	1,517,161	1,569,293
Less amounts not intended to be used within one year due to Board of Directors' designations:		
Designated for renovations	-	204,706
Financial assets generally not available to be used within one year	1,517,161	1,773,999
Financial assets available to meet general expenditures over the next twelve months	\$ 912,638	\$ 727,964

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 2 - Availability and Liquidity (Cont.)

The Organization has received donor-restricted contributions and grants that are restricted by the donors and grantors for capital projects. Therefore, such amounts are excluded from the total financial assets available to meet general expenditures above.

The Organization maintains a donor-restricted endowment (See Note 15). Donor-restricted contributions to the endowment are required to be held by the Organization in perpetuity. Therefore, such amounts are excluded from the total financial assets available to meet general expenditures above.

The Organization's Board of Directors has designated funds totaling \$0- and \$204,706 as of June 30, 2021 and 2020 to be available for future renovations. Such funds are excluded from the total financial assets available to meet general expenditures above as they are not intended to be available for general expenditures.

The Organization's Board of Directors has designated funds totaling \$783,633 and \$772,023 as of June 30, 2021 and 2020, respectively, to function as an operating reserve. Withdrawals from the operating reserve may only be made upon a resolution adopted by a 2/3rd vote of the Board of Directors and the resolution must include a plan for the repayment of the funds withdrawn. The target balance for the Board-designated operating reserve is 180 days of annual operating costs (approximately \$1,200,000). Operating costs are calculated by dividing total operating expenses, excluding depreciation, for the year by twelve months.

In addition to the financial assets available to meet general expenditures over the next twelve months listed above, the Organization also has a \$150,000 line of credit available (See Note 7) to meet cash flow needs (if needed).

Note 3 - Concentration of Cash Balances

At June 30, 2021, and at various times during the year, the Organization maintained cash-in-bank balances in excess of the federally insured limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Amounts held in excess of the FDIC limit were approximately \$0- and \$387,000 for the years ended June 30, 2021 and 2020, respectively.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 4 - Fair Value Measurement

ASC 820-10 Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under *FASB ASC820* are as described as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Organization's Level 1 investments comprise of cash equivalents and money market mutual funds. Investments whose values are valued at original cost, and are, therefore, classified with Level 1, include cash equivalents. Investments whose values are based on quoted market prices in active markets, and are, therefore, classified with Level 1, include cash and cash equivalents and money market mutual funds.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 4 - Fair Value Measurement (Cont.)

Investments classified within Level 3 have significant unobservable inputs because they trade infrequently or not at all. Level 3 instruments include pledges receivable. Pledges receivable are valued based on the present value of the future expected cash flows using a discount rate of 5.25% as of June 30, 2020.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of:

June 30, 2021	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 1,612,920	\$ -	\$ -	\$ 1,612,920
Pledges receivable	-	-	-	-
Total	\$ 1,612,920	\$ -	\$ -	\$ 1,612,920
June 30, 2020	Level 1	Level 2	Level 3	Total
Investments				
Money market mutual funds	\$ 1,756,173	\$ -	\$ -	\$ 1,756,173
Pledges receivable	-	-	31,657	31,657
Total	\$ 1,756,173	\$ -	\$ 31,657	\$ 1,787,830

The following table reconciles the beginning and ending balances of the Organization's assets measured at fair value using significant unobservable inputs (Level 3) for the years ended June 30:

	2021 Pledges receivable	2020 Pledges receivable
Beginning balance	\$ 31,657	\$ 131,375
Collections and adjustments	(38,035)	(154,515)
Change in allowance for doubtful accounts	3,874	46,126
Change in present value discount	2,504	8,671
Ending balance	\$ -	\$ 31,657

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 5 - Property and Equipment

Property and equipment consisted of the following as of June 30:

	Estimated Lives (In Years)	2021	2020
Website	3 years	\$ 116,780	\$ -
Furniture and equipment	3 - 20 years	856,978	856,978
Building improvements	10 - 40 years	17,133,251	16,788,040
Capital improvements in progress	-	19,566	226,413
		18,126,575	17,871,431
Less: accumulated depreciation		(5,610,913)	(4,985,803)
		<u>\$ 12,515,662</u>	<u>\$ 12,885,628</u>

Depreciation expense was \$625,109 and \$584,289 for the years ended June 30, 2021 and 2020, respectively.

Note 6 - Accrued Expenses

Accrued expenses consist of accrued vacation and amounts payable for payroll and related taxes and benefits. Accrued vacation benefits due to employees at June 30, 2021 and 2020 were \$18,698 and \$24,959, respectively.

Note 7 - Line of Credit

The Organization has a \$150,000 unsecured line of credit with a bank bearing interest at prime with a minimum rate of 4%. There was no balance outstanding at June 30, 2021 and 2020, respectively.

Note 8 - Deferred Revenue

Deferred revenue consists of deposits and tuition received in advance. Deferred revenue at June 30, 2021 and 2020 amounted to \$64,455 and \$66,949, respectively.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 9 - Capital Lease Obligations

In April of 2019, the Organization entered into a lease agreement for a copier that has been accounted for as a capital lease. The lease calls for monthly payments of \$434, including interest at 8.25% and maturing in April 2024. The copier was capitalized at a cost of \$23,522. Accumulated amortization was \$10,585 and \$5,880 at June 30, 2021 and 2020, respectively. Amortization attributable to the copier was \$4,704 for both of the years ending June 30, 2021 and 2020 and is included in depreciation expense in the statement of functional expenses.

Future minimum lease payments are as follows:

	<u>Year Ended June 30</u>	
	2022	\$ 5,208
	2023	5,208
	2024	<u>7,313</u>
Total minimum lease payments		17,729
Less: amounts representing interest		<u>(2,256)</u>
Total future minimum lease payments (including current portion of \$4,084)		<u>\$ 15,473</u>

Interest expense on the Organization's capital leases was \$1,909 and \$1,965 for the years ending June 30, 2021 and 2020, respectively.

Maryland Hall for the Creative Arts, Inc.
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 June 30, 2021

Note 10 - Commitments – Anne Arundel County Board of Education

Maryland Hall for the Creative Arts, Inc. leases its facilities from the Anne Arundel County Board of Education. The lease expires on December 31, 2040 and requires no rental payments; however, the agreement states that the Board of Education has the right to terminate the agreement provided three years advance notice is given. In the event of a termination of the agreement, the issue of non-removable fixtures installed by the Organization shall be negotiated by both parties and reimbursements, if any, will be determined.

An imputed value for building rent has not been recognized in the financial statements. The Board of Education donated services in the amount of \$190,334 and \$164,716 for the years ended June 30, 2021 and 2020, respectively. The donated services have been recognized as income and expenses in the financial statements and are as follows at June 30:

	2021	2020
Custodial	\$ 135,959	\$ 135,586
Utilities	54,375	29,130
	\$ 190,334	\$ 164,716

The lease also states that the Board of Education retains the right to conduct a certain portion of its student programs in the building. The Board of Education assumes full liability for claims arising from programs and shall make reparations for damages to property owned by the Organization. Additionally, up to 20% of the Organization’s class enrollments are to be held for Anne Arundel County Public School students without charge or accommodated in some other fashion to fulfill this requirement.

Note 11 - Donated Materials, Facilities and Services

In addition to the donated amounts noted in Note 10, the Organization also receives donated professional services and advertising. Donated professional services and advertising received for the years ended June 30, 2021 and 2020 totaled \$-0- and \$26,400, respectively.

Note 12 - State of Maryland Capital Funding

As of June 30, 2021, the Organization had approximately \$2,277,000 of capital grants from the State of Maryland available for capital renovations. These funds are conditional upon the Organization spending the funds and will be recognized when the renovations occur.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 13 - Net Assets Without Donor Restrictions – Board-Designated

The Board of Directors have designated net assets as follows at June 30:

	2021	2020
Operating reserve	\$ 783,633	\$ 772,023
Theatre wing renovations	-	156,582
Facility renovations	-	48,124
	\$ 783,633	\$ 976,729

Note 14 - Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30:

	2021	2020
Capital contributions and grants	\$ 1,441,356	\$ 1,493,495
Endowment - held to perpetuity	73,350	73,350
Contributions, other	10,000	30,000
Endowment - accumulated net gains	2,455	2,448
	\$ 1,527,161	\$ 1,599,293

Note 15 - Endowments

The Organization’s endowment was established in the fiscal year ended June 30, 1998 and consists of funds established for a variety of purposes and includes donor-restricted funds. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization’s endowment is comprised of donor-restricted endowment funds. Net assets for the Organization’s endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 15 - Endowments (Cont.)

The Organization’s Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions held to perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions held to perpetuity is classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment policies, approved by the Board of Directors, that seek to preserve and enhance the purchasing power of the endowment assets. To meet this goal, the Organization may invest in cash and cash equivalents, certificates of deposit, United States Treasury bills, and other investments that are relatively liquid. The Finance Committee and Organization’s management will review the allocation of assets held in the endowment periodically and make recommendations to the Board of Directors.

Spending Policy: The Organization has a spending policy where all endowment earnings will remain in the endowment until the assets in the endowment reach \$250,000. Upon reaching a balance of \$250,000, the Finance Committee of the Organization will make a recommendation to the Board of Directors regarding future spending from the endowment.

Endowment net assets consist of the following at June 30, 2021 and 2020:

	With donor restrictions - held to perpetuity	With donor restrictions - accumulated net gains subject to appropriation	Total
<u>June 30, 2021</u>			
Donor-restricted endowment funds	<u>\$ 73,350</u>	<u>\$ 2,455</u>	<u>\$ 75,805</u>
<u>June 30, 2020</u>			
Donor-restricted endowment funds	<u>\$ 73,350</u>	<u>\$ 2,448</u>	<u>\$ 75,798</u>

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 15 - Endowments (Cont.)

Changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

<u>June 30, 2021</u>	<u>With donor restrictions - held to perpetuity</u>	<u>With donor restrictions - accumulated net gains subject to appropriation</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 73,350	\$ 2,448	\$ 75,798
Investment return, net	-	7	7
Endowment net assets, end of year	<u>\$ 73,350</u>	<u>\$ 2,455</u>	<u>\$ 75,805</u>
<u>June 30, 2020</u>	<u>With donor restrictions - held to perpetuity</u>	<u>With donor restrictions - accumulated net gains subject to appropriation</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 73,350	\$ 1,560	\$ 74,910
Investment return, net	-	888	888
Endowment net assets, end of year	<u>\$ 73,350</u>	<u>\$ 2,448</u>	<u>\$ 75,798</u>

Note 16 - Retirement Plan

The Organization sponsors a Simplified Employee Pension (SEP) plan for the benefit of its employees. Total Organization contributions to the plan were \$-0- and \$7,331 for the years ending June 30, 2021 and 2020, respectively.

Note 17 - Other Grant Income - Paycheck Protection Program

In April 2020, the Organization received a first draw under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP) totaling \$202,786. In April 2021, the Organization received a second draw under the PPP totaling \$202,786. The PPP funding is legally structured as a forgivable loan by the SBA. In order to achieve forgiveness of the loan, the Organization must spend the funding for specific purposes and also must generally maintain its full-time equivalent level of staffing over a defined time period, as defined by the PPP program regulations.

Maryland Hall for the Creative Arts, Inc.
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 June 30, 2021

Note 17 - Other Grant Income - Paycheck Protection Program (Cont.)

The Organization has accounted for the PPP funding as a conditional grant in the financial statements. As such, the Organization has recorded other grant revenue based on qualifying expenditures incurred for the years ending June 30, 2021 and 2020. Due to the unusual nature of the PPP funding, the other grant revenue has been presented separately in the financial statements under other changes in net assets. Other grant revenue recorded for the PPP funding is summarized as follows for the years ending June 30:

	2021	2020
PPP first draw loan	\$ 61,083	\$ 141,703
PPP second draw loan	136,238	-
	\$ 197,321	\$ 141,703

A refundable advance totaling \$66,548 and \$61,083 has been recorded at June 30, 2021 and 2020 reflecting the portion of the PPP funding for which the substantial conditions required for forgiveness have not been met.

The Organization's PPP funding is subject to a formal forgiveness application as well as a review by the SBA. Until forgiveness has been legally achieved, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management of the Organization is of the opinion that no significant liability will result from audit adjustments, if any. During the year ended June 30, 2021, the Organization received full forgiveness of the first draw loan.

Note 18 - Other Grant Income - Employee Retention Credit

During the year ending June 30, 2021, the Organization became eligible for Employee Retention Credits (ERC) established by the Coronavirus Aid, Relief, and Economic Security Act. The ERC program is administered by the Internal Revenue Service (IRS) and is structured as a refundable payroll tax credit. Eligibility for the ERC is based on qualifying under either a gross receipts test or a suspension of operations test. Once eligible, the Organization may claim the ERC based on wages paid during eligible time periods. Under IRS regulations, eligible ERC wages must be coordinated with the PPP program so that wages are not used to qualify for both programs simultaneously.

The Organization has accounted for the ERC funding as a conditional grant in the financial statements. As such, the Organization has recorded other grant revenue based on qualifying expenditures incurred for the year ending June 30, 2021. Due to the unusual nature of the ERC funding, the other grant revenue has been presented separately in the financial statements under other changes in net assets. Other grant revenue recorded for the ERC funding was \$148,617 for the year ending June 30, 2021.

Maryland Hall for the Creative Arts, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont.)
June 30, 2021

Note 18 - Other Grant Income - Employee Retention Credit (Cont.)

The rules governing the ERC are complex and subject to varying interpretations. In addition, claims made under the CARES Act may be subject to retroactive audit and review. There can be no assurance that the IRS or other regulatory authorities will not challenge the Organization's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Organization. Management of the Organization is of the opinion that no significant liability will result from audit adjustments, if any.

Note 19 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. Except as described below, there have been no subsequent events through October 27, 2021, the date the financial statements were available to be issued, that require recognition or disclosure.