



Abrams
Foster
Nole &
Williams, P.A.

**MARYLAND AFRICAN AMERICAN
MUSEUM CORPORATION**

**Financial Statements
and
Independent Auditor's Report**

Years Ended June 30, 2018 and 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
<u>Financial Statements</u>	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Maryland African American Museum Corporation
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland African American Museum Corporation which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, 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 audit. 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 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.

Certified Public Accountants & Business Advisors

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maryland African American Museum Corporation as of June 30, 2018 and 2017, 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.



Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants
Baltimore, Maryland

September 7, 2018

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 213,094	\$ 823,350
Accounts receivable	25,099	6,911
Other receivables	87,095	35,751
Gift Shop inventory	42,988	24,901
Prepaid expenses	<u>17,500</u>	<u>3,338</u>
Total current assets	<u>385,776</u>	<u>894,251</u>
Property and Equipment, net	<u>526,209</u>	<u>688,010</u>
Non Current Assets		
Investments	7,766,641	7,141,006
Restricted cash	1,065,712	1,063,583
Note receivable - Endowment	<u>266,000</u>	<u>700,000</u>
Total non current assets	<u>9,098,353</u>	<u>8,904,589</u>
Total Assets	<u><u>\$ 10,010,338</u></u>	<u><u>\$ 10,486,850</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 285,844	\$ 475,174
Accrued payroll expenses	164,480	95,962
Accrued expenses	39,660	41,000
Line of credit	400,000	900,000
Deferred revenue	<u>138,152</u>	<u>161,842</u>
Total current liabilities	<u>1,028,136</u>	<u>1,673,978</u>
Long Term Liabilities		
Due to endowment fund	<u>266,000</u>	<u>700,000</u>
Net Assets		
Unrestricted net assets/(deficit)	(2,328,245)	(2,764,535)
Temporarily restricted net assets	2,395,587	2,228,547
Permanently restricted net assets	<u>8,648,860</u>	<u>8,648,860</u>
Total net assets	<u>8,716,202</u>	<u>8,112,872</u>
Total Liabilities and Net Assets	<u><u>\$ 10,010,338</u></u>	<u><u>\$ 10,486,850</u></u>

“The accompanying notes are an integral part of the financial statements”

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Grants	\$ 2,472,309	\$ 77,000	\$ -	\$ 2,549,309
Contributions	212,351	38,685	-	251,036
Admissions	130,955	-	-	130,955
Membership dues	67,277	-	-	67,277
Investment earnings	2,755	110,182	-	112,937
Realized gain on endowments	-	-	-	-
Unrealized gain on endowments	-	517,585	-	517,585
Other income	457,671	-	-	457,671
Net assets released from restrictions	576,412	(576,412)	-	-
Total revenue and support	3,919,730	167,040	-	4,086,770
Expenses				
Collections and exhibitions	566,930	-	-	566,930
Education and public programs	627,185	-	-	627,185
External affairs	498,688	-	-	498,688
Management, building and security	1,790,637	-	-	1,790,637
Total expenses	3,483,440	-	-	3,483,440
Increase in net assets	436,290	167,040	-	603,330
Net assets/(deficit) beginning of year	(2,764,535)	2,228,547	8,648,860	8,112,872
Net Assets/(Deficit) End of Year	\$ (2,328,245)	\$ 2,395,587	\$ 8,648,860	\$ 8,716,202

“The accompanying notes are an integral part of the financial statements”

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Grants	\$ 2,140,942	\$ 39,975	\$ -	\$ 2,180,917
Contributions	57,278	122,597	-	179,875
Admissions	154,330	-	-	154,330
Membership dues	66,435	-	-	66,435
Investment earnings	2,737	83,676	-	86,413
Realized gain on endowments	-	1,221,088	-	1,221,088
Unrealized (loss) on endowments	-	(558,934)	-	(558,934)
Other income	156,743	-	-	156,743
Net assets released from restrictions	51,673	(51,673)	-	-
Total revenue and support	2,630,138	856,729	-	3,486,867
Expenses				
Collections and exhibitions	639,980	-	-	639,980
Education and public programs	621,105	-	-	621,105
External affairs	377,070	-	-	377,070
Management, building and security	1,767,924	-	-	1,767,924
Total expenses	3,406,079	-	-	3,406,079
(Decrease)/increase in net assets	(775,941)	856,729	-	80,788
Net assets/(deficit) beginning of year	(1,988,594)	1,371,818	8,648,860	8,032,084
Net Assets/(Deficit) End of Year	\$ (2,764,535)	\$ 2,228,547	\$ 8,648,860	\$ 8,112,872

“The accompanying notes are an integral part of the financial statements”

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Statement of Functional Expenses
Year Ended June 30, 2018

	COLLECTIONS AND EXHIBITS	EDUCATION & PUBLIC PROGRAMS	EXTERNAL AFFAIRS	MANAGEMENT, BUILDING & SECURITY	TOTAL 2018
Salaries & wages	\$ 139,360	\$ 297,924	\$ 157,654	\$ 578,281	\$ 1,173,219
Fringe benefits	70,269	117,345	51,539	247,875	487,028
Contractual employees	522	86,030	36,841	19,293	142,686
Communications	1	1,963	1,560	6,868	10,392
Travel	374	6,555	696	714	8,339
Fixed charges	300	5,482	2,315	27,429	35,526
Interest expense	-	-	-	11,367	11,367
Materials and supplies	18,924	9,158	3,280	18,426	49,788
Equipment	3,439	-	-	-	3,439
Vehicle operations & maintenance	-	-	-	16	16
Contractual services	5,255	56,015	43,881	538,395	643,546
Programs/workshops	200	41,505	15,700	-	57,405
Outside services	174	2,355	183,815	4,508	190,852
Exhibits	133,323	2,853	1,407	410	137,993
Utilities	-	-	-	278,054	278,054
Depreciation expense	194,789	-	-	59,001	253,790
Total expenses	<u>\$ 566,930</u>	<u>\$ 627,185</u>	<u>\$ 498,688</u>	<u>\$ 1,790,637</u>	<u>\$ 3,483,440</u>

“The accompanying notes are an integral part of the financial statements”

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Statement of Functional Expenses
Year Ended June 30, 2017

	<u>COLLECTIONS AND EXHIBITS</u>	<u>EDUCATION & PUBLIC PROGRAMS</u>	<u>EXTERNAL AFFAIRS</u>	<u>MANAGEMENT, BUILDING & SECURITY</u>	<u>TOTAL 2017</u>
Salaries & wages	\$ 216,280	\$ 309,057	\$ 154,641	\$ 480,371	\$ 1,160,349
Fringe benefits	112,788	155,040	69,282	250,884	587,994
Contractual employees	85,161	84,950	49,085	41,505	260,701
Communications	59	133	302	4,252	4,746
Travel	848	4,813	175	1,199	7,035
Fixed charges	659	4,982	3,425	18,870	27,936
Interest expense	-	-	-	25,788	25,788
Materials and supplies	8,681	9,269	12,903	19,951	50,804
Vehicle operations & maintenance	-	-	-	1,671	1,671
Contractual services	3,401	23,652	34,612	525,565	587,230
Programs/workshops	500	28,713	4,985	-	34,198
Outside services	-	300	47,345	22,961	70,606
Exhibits	16,814	196	315	305	17,630
Utilities	-	-	-	309,990	309,990
Depreciation expense	194,789	-	-	64,612	259,401
Total expenses	<u><u>\$ 639,980</u></u>	<u><u>\$ 621,105</u></u>	<u><u>\$ 377,070</u></u>	<u><u>\$ 1,767,924</u></u>	<u><u>\$ 3,406,079</u></u>

“The accompanying notes are an integral part of the financial statements”

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 603,330	\$ 80,788
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	253,790	259,401
Unrealized (gain) loss on investments	(517,585)	558,934
Investment earnings	(108,053)	-
Changes in restricted cash	(2,129)	(2,131)
Changes in operating assets and liabilities:		
(Increase) decrease in assets		
Accounts receivable	(18,188)	(6,911)
Other receivables	(51,344)	(17,410)
Inventory	(18,087)	(38)
Prepaid expenses	(14,162)	(3,338)
Increase (decrease) in liabilities		
Accrued payroll expenses	68,518	(41,984)
Accrued expenses	(1,340)	8,000
Accounts payable	(189,330)	364,242
Deferred revenue	(23,690)	156,063
Total adjustments	<u>(621,600)</u>	<u>1,274,828</u>
Net cash (used) provided by operating activities	<u>(18,270)</u>	<u>1,355,616</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(91,986)	(19,851)
Purchase of investments	-	(7,175,074)
Proceeds from sale of investments	-	6,558,600
Note receivable- endowment fund	434,000	(700,000)
Net cash provided (used) by investing activities	<u>342,014</u>	<u>(1,336,325)</u>
Cash Flows from Financing Activities		
Proceeds from line of credit	-	100,000
Principal payments on line of credit	(500,000)	-
Loan from endowment fund	-	700,000
Principal payments on endowment fund loan	(434,000)	-
Net cash (used) provided by in financing activities	<u>(934,000)</u>	<u>800,000</u>
(Decrease) increase in cash and cash equivalents	(610,256)	819,291
Cash and cash equivalents, beginning of year	<u>823,350</u>	<u>4,059</u>
Cash and Cash Equivalents, End of Year	<u>\$ 213,094</u>	<u>\$ 823,350</u>
Supplemental disclosure		
Cash paid for interest	<u>\$ 11,367</u>	<u>\$ 25,788</u>

“The accompanying notes are an integral part of the financial statements”

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

1. NATURE OF ACTIVITIES

The Maryland African American Museum Corporation (the Corporation), which is a component unit of the State of Maryland (State), was created by the Maryland General Assembly (Senate Bill 716) in 1998 to plan, develop and manage a Maryland Museum of African American History and Culture in Baltimore City, in cooperation with the active support of the Mayor and City Council of Baltimore, affected State agencies, and other public and private institutions. The Corporation is a public instrumentality of the State and an independent unit in the Executive Branch of the State Government.

In 2002, the Corporation was awarded a \$5,000,000 endowment grant from The Reginald F. Lewis Foundation. The grant was payable over a period of five years. The final payment was received in June 2006. As a condition of the grant and after the Maryland Board of Public Works approval, the museum building was renamed Reginald F. Lewis Museum of Maryland African American History & Culture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements of the Corporation are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

B. Federal Income Tax

The Corporation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is considered a quasi-government organization under the State of Maryland. Accordingly, there are no provisions for income taxes within the accompanying financial statements and the Corporation has not taken any questionable tax positions.

C. Basis of Presentation

The financial statement presentation follows the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-for-Profit Programs*. Under ASC-958-205, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (continued)

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations and are further delineated into the following categories:

- Operating represents the portion of net assets available for support of operations.
- Management reserved is for amounts designated by management to provide for future capital improvements.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to the stipulations. Net assets may be temporarily restricted for various purposes; such as use in future periods or use for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Corporation's action.

D. Promises to Give

Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

E. Use of Estimates

The preparation of financial statements in conformity 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 as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks including demand deposits, certificates of deposit, and money market accounts with a maturity of less than 90 days.

G. Capital Assets

Capital assets are stated at cost, or if donated, at the approximate fair value at the date of donation. The Corporation has a capitalization policy of \$1,000. Depreciation is computed using the straight-line method and the following useful lives: software, 3 years; office equipment, 3-5 years; furniture, 5-7 years; vehicles, 5 years; and building improvements, 5-15 years.

The Corporation owns diverse collections of historical and artistic artifacts. The Corporation does not capitalize these collections as they meet the criteria for: (1) the Corporation's mission in acquiring these collections is for the purpose of preservation, (2) education, (3) research, and (4) exhibition. The Corporation secures and preserves all collections to adequately preserve African American history. All amounts received from the sale of artifacts and collections are used only for the purchase of new artifacts and collections.

H. Line of Credit

On May 2, 2008, the Corporation entered into a \$1,000,000 line of credit with a local bank with a maturity date of August 2, 2012 with various subsequent extensions through July 10, 2019. The line is secured by a certificate of deposit at the local bank and carries an interest rate of 2.2 percent. Collateral of \$1,000,000 is held on a Certificate of Deposit Account Registry Service (CDARS) account. Borrowings totaled \$400,000 and \$900,000 at June 30, 2018 and 2017, respectively.

I. Grants

The Governor of the State of Maryland is authorized under the Maryland African American Museum Corporation Act (Article 41, title 20, subtitle 1 of the Annotated Code of Maryland) to include a general fund grant to the Corporation in the Governor's annual budget submission. The Governor has committed to propose each year, under a Memorandum of Understanding, a state grant to the

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Grants (continued)

Corporation equal to 50 percent of the Corporation's operating budget, as approved by the Maryland Department of Budget and Management (DBM).

Under the Memorandum of Understanding, if the Corporation does not expend or encumber the entire amount of the state grant along with the Corporation's matching funds for costs of operations incurred in the current fiscal year, the Corporation shall return the amount of the unexpended, unencumbered state grant to the general fund. As of June 30, 2018 and 2017, there was no balance due to the State of Maryland. The Corporation met its matching requirement for the year ended June 30, 2018 and did not meet its matching requirement for the year ended June 30, 2017 under the terms of the Memorandum of Understanding.

J. Use of Restricted Assets

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Corporation's policy is to first charge the expense to restricted resources and then to unrestricted resources.

K. Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illness of employees; and natural disasters. The Corporation participates in the State's various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and antitrust liabilities and certain employee health benefits.

The State allocates the cost of providing claims servicing and claim payments by charging a "premium" to the Corporation based on a percentage of the Corporation's estimated current year payroll or based on the average loss experienced by the Corporation. This charge considers recent trends in actual claims experienced by the State as a whole and makes provisions for catastrophic losses.

There have been no significant reductions in insurance coverage from the prior year. Additionally, settlements have not exceeded insurance coverage for the past three fiscal years.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Financial Instruments with Concentration of Credit Risk

The Corporation maintains its cash accounts with a commercial bank as well as brokerage firms. The accounts at the commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000 per depositor. Cash accounts at the brokerage firm are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 and the securities are insured up to \$500,000 for each brokerage account. The SIPC insurance does not protect against market losses on investments. The risk is managed by maintaining all deposits in high quality financial institutions. The Corporation has not experienced any losses in such accounts.

M. Reporting for Impairment of Capital Assets and Insurance Recoveries

The Corporation received no insurance recoveries for the years ended June 30, 2018 and 2017. There were no impairments of capital assets.

N. Commitments

The Corporation entered a month to month agreement with Class Act Café and Catering, Inc. to operate the café within the Museum and to provide catering for events held at the Museum. The commissions were calculated on a percentage of net Café revenues and a percentage of gross catering revenues as defined in the agreement. Commission revenue was \$33,356 and \$4,978, for the years ended June 30, 2018 and 2017, respectively.

3. CASH DEPOSIT BALANCES

The following are the carrying value and bank balances of deposits at June 30, 2018 and 2017:

	<u>2018</u>		<u>2017</u>	
	<u>Carrying Amounts</u>	<u>Bank Amounts</u>	<u>Carrying Amounts</u>	<u>Bank Amounts</u>
Demand deposits	\$ (2,370)	\$ 13,478	\$ 8,717	\$ 12,504
Certificate of deposits	1,065,712	1,065,712	1,063,583	1,063,583
Money market accounts	214,563	214,089	813,933	783,282
Total	<u>\$ 1,277,905</u>	<u>\$ 1,293,279</u>	<u>\$ 1,886,233</u>	<u>\$ 1,859,369</u>

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

3. CASH DEPOSIT BALANCES (Continued)

The bank amount is the statement balance at June 30 that does not include in-transit transactions. The aforementioned deposits do not include cash on hand of \$900 and \$700 at June 30, 2018 and 2017, respectively.

4. RESTRICTED CASH

The Corporation has cash that is maintained in separate bank accounts and restricted by donors as permanent endowments as follows:

	<u>2018</u>	<u>2017</u>
Operating endowments	\$ 223,800	\$ 138,434
Education endowments	<u>841,912</u>	<u>925,149</u>
Total	<u>\$ 1,065,712</u>	<u>\$ 1,063,583</u>

5. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles in the United States (GAAP) establish a framework for measuring fair value. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. That 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 fair value hierarchy are described below:

Level 1

Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3

Inputs that are unobservable inputs that are supported by little or no market activity and that are significant to the measurement of the assets or liabilities.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

5. FAIR VALUE MEASUREMENTS (Continued)

Level 3

Inputs that are unobservable inputs that are supported by little or no market activity and that are significant to the measurement of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Cash, Money Market and Mutual Funds: These funds are categorized as Level 1 as the primary purpose is to maintain a stable net asset value (“NAV”) of \$1.

Fair Value of Measurement

The following table presents the Corporation’s fair value measurements of assets recognized in the accompanying combined statements of financial position that are measured at fair value on a recurring basis and Level 1 within the fair value hierarchy as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and Money Market Funds	\$ 988,752	\$ 902,472
Mutual Funds	<u>6,777,889</u>	<u>6,238,534</u>
Total fair value	<u>\$ 7,766,641</u>	<u>\$ 7,141,006</u>

For the period from July 1, 2017, through June 30, 2018, the application of the valuation techniques applied to similar assets and liabilities has been consistent.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

6. INVESTMENTS

Investments are presented at fair value and are composed of the following at June 30, 2018 and 2017.

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 988,752	\$ 988,752	\$ 902,472	\$ 902,472
Mutual funds	<u>6,260,304</u>	<u>6,777,889</u>	<u>6,200,000</u>	<u>6,238,534</u>
Total	<u>\$ 7,249,056</u>	<u>\$ 7,766,641</u>	<u>\$ 7,102,472</u>	<u>\$ 7,141,006</u>

7. CAPITAL ASSETS

Capital assets consist of the following at June 30, 2018:

Capital Assets	Balance June 30, 2017	Additions	Disposals/ Transfers	Balance June 30, 2018
Equipment	\$ 448,211	\$ 55,690	\$ -	\$ 503,901
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	15,405	-
Permanent exhibit	2,912,491	-	-	2,912,491
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	<u>301,327</u>	<u>36,299</u>	-	<u>337,626</u>
Total	<u>3,787,395</u>	<u>91,989</u>	<u>15,405</u>	<u>3,863,979</u>
Accumulated depreciation				
Equipment	398,049	40,230	-	438,279
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	15,405	-
Permanent exhibit	2,326,323	194,789	-	2,521,112
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	<u>249,647</u>	<u>18,771</u>	-	<u>268,418</u>
Total	<u>3,099,385</u>	<u>253,790</u>	<u>15,405</u>	<u>3,337,770</u>
Capital Assets, net	<u>\$ 688,010</u>	<u>\$ (161,801)</u>	<u>\$ -</u>	<u>\$ 526,209</u>

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

7. CAPITAL ASSETS (Continued)

Capital assets consist of the following at June 30, 2017:

Capital Assets	Balance June 30, 2016	Additions	Disposals/ Transfers	Balance June 30, 2017
Equipment	\$ 440,405	\$ 7,806	\$ -	\$ 448,211
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	-	15,405
Permanent exhibit	2,912,491	-	-	2,912,491
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	289,282	12,045	-	301,327
Total	<u>3,767,544</u>	<u>19,851</u>	<u>-</u>	<u>3,787,395</u>
Accumulated depreciation				
Equipment	354,659	43,390	-	398,049
Furniture	89,725	-	-	89,725
Vehicles	15,405	-	-	15,405
Permanent exhibit	2,131,534	194,789	-	2,326,323
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	228,425	21,222	-	249,647
Total	<u>2,839,984</u>	<u>259,401</u>	<u>-</u>	<u>3,099,385</u>
Capital Assets, net	<u>\$ 927,560</u>	<u>\$ (239,550)</u>	<u>\$ -</u>	<u>\$ 688,010</u>

8. RELATED PARTY TRANSACTIONS

The museum building is owned by the State of Maryland and operated by the Corporation under a memorandum of understanding. Land for the museum is leased from the City of Baltimore (see Note 9).

The employees of the Corporation are employees of the State of Maryland. Therefore, the Central Payroll Bureau of the State of Maryland handles all payroll issues for the Corporation including processing paychecks, payroll deductions, reporting, and payment of all related payroll taxes and benefits. The Corporation reimburses the State for all salaries and related benefit costs. As of June 30, 2018 and 2017, the Corporation owed \$131,190 and \$336,163, respectively, to the State of Maryland.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

9. OPERATING LEASES

The Corporation has entered into a land lease agreement with the City of Baltimore. As the building of a museum in Baltimore City supports the City's efforts to expand tourism beyond the Inner Harbor, the Corporation asked the City of Baltimore to match the State's commitment to building the museum by leasing the land for \$1 per year for 98 years. Under the terms of the Land Disposition Lease Agreement, the property can only be used as a museum. In the event of any default, the land would revert back to the City and the building to the State of Maryland.

During fiscal years 2018 and 2017, the Corporation had operating lease agreements for various office equipment. Rental expense was \$17,049 and \$15,326 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under operating leases with lease terms of one year or more for the year ended June 30, 2018 are as follows:

2019	\$ 12,918
2020	11,558
2021	9,654
2022	8,531
2023	<u>2,675</u>
Total	<u>\$ 45,336</u>

10. ENDOWMENT NET ASSETS

The Corporation's endowment consists of individual pledges established for a variety of purposes and is composed of donor-restricted endowment funds. The endowment net assets may include endowed unconditional promises to give, which are recognized in the year the commitment is received.

Interpretation of Relevant Law

As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

10. ENDOWMENT NET ASSETS (Continued)

Interpretation of Relevant Law (continued)

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

In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Corporation and (7) the Corporation's investment policies.

Corporation's Spending Policy

The current policy is to distribute on an annual basis an amount equal to 5 percent of the average market value of the endowment for the previous quarter.

The changes in endowment net assets are illustrated below, which are maintained in the Permanently Restricted Fund and the Temporarily Restricted Fund.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

10. ENDOWMENT NET ASSETS (Continued)

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2017	\$ 2,228,547	\$ 8,648,860	\$ 10,877,407
Investment return:			
Investment income	114,953	-	114,953
Realized/Unrealized gain on endowment	517,585	-	517,585
Subtotal	2,861,085	8,648,860	11,509,945
Fees	(4,771)	-	(4,771)
Contributions and grants	115,685	-	115,685
Net assets released from restrictions	(576,412)	-	(576,412)
Endowment Net Assets, June 30, 2018	\$ 2,395,587	\$ 8,648,860	\$ 11,044,447

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2016	\$ 1,371,818	\$ 8,648,860	\$ 10,020,678
Investment return:			
Investment income	83,676	-	83,676
Realized/Unrealized gain on endowment	709,375	-	709,375
Subtotal	2,164,869	8,648,860	10,813,729
Fees	(47,221)	-	(47,221)
Contributions and grants	162,572	-	162,572
Net assets released from restrictions	(51,673)	-	(51,673)
Endowment Net Assets, June 30, 2017	\$ 2,228,547	\$ 8,648,860	\$ 10,877,407

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

11. RESTRICTIONS ON NET ASSETS

Net assets at June 30, 2018 and 2017 are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
<u>Temporarily Restricted:</u>		
Education	\$ 2,454,681	\$ 1,955,421
Marketing	113,378	113,378
Museum operations	(266,611)	33,193
Development	94,139	126,555
Total	<u>\$ 2,395,587</u>	<u>\$ 2,228,547</u>

Net assets at June 30, 2018 and 2017 are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
<u>Permanently Restricted:</u>		
Education	\$ 6,332,626	\$ 6,332,626
Museum operations	2,316,234	2,316,234
Total	<u>\$ 8,648,860</u>	<u>\$ 8,648,860</u>

12. RETIREMENT PLANS

The employees of the Corporation are covered by the State Retirement and Pension System of Maryland (the System). The State Retirement Agency (the Agency) is the administrator of the System, a cost sharing multiple-employee retirement system. The System was established by the State Personnel and Pension Articles 73B of the Annotated Code of Maryland and provides retirement allowances to System members and beneficiaries. Responsibility for administration and operation of the System is vested with a Board of Trustees (Trustees). The System issues a publicly-available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202 or by calling (800) 492-5909.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

12. RETIREMENT PLANS (Continued)

Funding Policy

The Corporation's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the laws governing the System, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used. The employees of the Corporation are required by State statute to contribute to the System. The employees contribute 7 percent of compensation, as defined, depending on the participant's plan. The Corporation made its required contribution during fiscal years ended June 30, 2018 and 2017 in the amounts of \$203,922 and \$225,171, respectively.

13. POST RETIREMENT BENEFITS

Former employees of the Corporation who are receiving retirement benefits may participate in post-employment health care benefits provided by the State for retired employees and their dependents.

These plans, which provide insurance coverage for medical, dental and hospital costs are funded currently by the payment of premiums to carriers and, under State policy, are contributory. Substantially all employees become eligible for these benefits when they retire with pension benefits. The cost of retirees' health care benefits are expensed when paid and totaled \$58,357 and \$100,190 for eighteen covered employees for the years ended June 30, 2018 and 2017, respectively.

14. DEFERRED COMPENSATION PLAN

Employees of the Corporation are also eligible to participate in the State's Deferred Compensation Plans (Plans) created in accordance with Internal Revenue Code Sections 457 and 401(k). The Plans, available to eligible employees, permit participants to defer a portion of their salary until future years. Participation in the Plans is optional.

The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All assets of the Plans are held in a trust, custodial account or annuity contract for the exclusive benefit of employees and beneficiaries. The Plan's third-party administrator manages investments under one of several investment options, or a combination thereof. Participants make the choice of the investment option(s).

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2018 and 2017

15. UNRESTRICTED NET ASSETS (DEFICIT)

Unrestricted net assets (deficit) consist of unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Corporation and include both internally-designated and undesignated resources. The balance of unrestricted net assets (deficit) was negative (\$2,328,245) and (\$2,764,535) at June 30, 2018 and 2017, respectively.

The Board and management of the Corporation has developed and implemented a strategic planning process to restructure its operations to reduce expenses and increase donations through community partnerships and corporate sponsorships in an effort to reduce and eliminate its net unrestricted net assets (deficit).

16. NOTE PAYABLE

On February 2, 2017, the Corporation secured a sixty month interest free loan from the Reginald F. Lewis Foundation in the amount of \$700,000 to be used for operations. Loan payments are amortized over sixty months and repayments on the loan are deferred for the first twenty-four months.

Thirty-six equal payments of \$11,667 will be made on the loan beginning month twenty-five with a balloon payment of \$279,999 due on the fifth anniversary of the effective date of the loan. During the year ended June 30, 2018, the Corporation repaid \$434,000 of the loan and has reduced its remaining expected repayment period to thirty-six months.

Future loan payments under the terms of the note as of the year ended June 30, 2018 are as follows:

2019	58,333
2020	140,000
2021	<u>67,667</u>
Total	<u><u>\$ 266,000</u></u>

17. SUBSEQUENT EVENTS

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 855-10-50, the Corporation has evaluated subsequent events and transactions through September 7, 2018 the date the financial statements were available to be issued. No events require recognition in the financial statements or disclosures of the Corporation.



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