



Abrams
Foster
Nole &
Williams, P.A.

**MARYLAND AFRICAN AMERICAN
MUSEUM CORPORATION**

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

Years Ended June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 6, 2019

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 408,359	\$ 213,094
Accounts receivable	39,842	25,099
Other receivables	3,391	87,095
Gift Shop inventory	44,105	42,988
Prepaid expenses	<u>-</u>	<u>17,500</u>
Total current assets	<u>495,697</u>	<u>385,776</u>
Property and Equipment, net	<u>406,180</u>	<u>526,209</u>
Non Current Assets		
Investments	8,189,626	7,766,641
Restricted cash	1,067,846	1,065,712
Note receivable - Endowment	<u>-</u>	<u>266,000</u>
Total non current assets	<u>9,257,472</u>	<u>9,098,353</u>
Total Assets	<u><u>\$ 10,159,349</u></u>	<u><u>\$ 10,010,338</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 217,836	\$ 285,844
Accrued payroll expenses	94,888	164,480
Accrued expenses	40,257	39,660
Line of credit	399,850	400,000
Deferred revenue	<u>39,123</u>	<u>138,152</u>
Total current liabilities	<u>791,954</u>	<u>1,028,136</u>
Long Term Liabilities		
Due to endowment fund	<u>-</u>	<u>266,000</u>
Net Assets		
Without donor restrictions		
Undesignated	109,923	(382,151)
Designated by the Board for endowment	<u>2,069,051</u>	<u>2,017,052</u>
	2,178,974	1,634,901
With donor restrictions		
Perpetual in nature	6,979,406	6,979,406
Purpose restrictions	<u>209,015</u>	<u>101,895</u>
	7,188,421	7,081,301
Total net assets	<u>9,367,395</u>	<u>8,716,202</u>
Total Liabilities and Net Assets	<u><u>\$ 10,159,349</u></u>	<u><u>\$ 10,010,338</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, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants	\$ 2,303,777	\$ -	\$ 2,303,777
Contributions	506,683	-	506,683
Admissions	154,374	-	154,374
Membership dues	39,707	-	39,707
Investment earnings	35,619	65,826	101,445
Realized gain on endowments	155,560	333,622	489,182
Unrealized gain on endowments	1,426	3,058	4,484
Other income	396,495	-	396,495
Net assets released from restrictions	295,386	(295,386)	-
Total revenue and support	3,889,027	107,120	3,996,147
Expenses			
Collections and exhibitions	525,116	-	525,116
Education and public programs	487,515	-	487,515
External affairs	705,649	-	705,649
Management, building and security	1,626,674	-	1,626,674
Total expenses	3,344,954	-	3,344,954
Increase in net assets	544,073	107,120	651,193
Net assets beginning of year	1,634,901	7,081,301	8,716,202
Net Assets End of Year	\$ 2,178,974	\$ 7,188,421	\$ 9,367,395

“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		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants	\$ 2,549,309	\$ -	\$ 2,549,309
Contributions	251,036	-	251,036
Admissions	130,955	-	130,955
Membership dues	67,277	-	67,277
Investment earnings	39,244	73,693	112,937
Unrealized gain on endowments	164,592	352,993	517,585
Other income	457,671	-	457,671
Net assets released from restrictions	295,988	(295,988)	-
Total revenue and support	<u>3,956,072</u>	<u>130,698</u>	<u>4,086,770</u>
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	<u>3,483,440</u>	<u>-</u>	<u>3,483,440</u>
Increase in net assets	472,632	130,698	603,330
Net assets beginning of year	<u>1,162,269</u>	<u>6,950,603</u>	<u>8,112,872</u>
Net Assets End of Year	<u>\$ 1,634,901</u>	<u>\$ 7,081,301</u>	<u>\$ 8,716,202</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, 2019

	COLLECTIONS AND EXHIBITS	EDUCATION & PUBLIC PROGRAMS	EXTERNAL AFFAIRS	MANAGEMENT, BUILDING & SECURITY	TOTAL 2019
Salaries & wages	\$ 93,367	\$ 237,992	\$ 273,171	\$ 478,442	\$ 1,082,972
Fringe benefits	52,165	106,481	108,563	208,070	475,279
Contractual employees	-	41,933	18,045	39,752	99,730
Communications	-	621	7,981	623	9,225
Travel	315	3,435	1,558	702	6,010
Fixed charges	4	15	4,950	47,932	52,901
Interest expense	-	-	-	8,037	8,037
Materials and supplies	21,322	6,483	16,752	16,864	61,421
Vehicle operations & maintenance	172	-	-	74	246
Contractual services	17,164	50,194	87,346	528,822	683,526
Programs/workshops	4,987	34,132	11,850	-	50,969
Outside services	8,754	5,868	163,016	1,094	178,732
Exhibits	132,077	361	12,417	5,993	150,848
Utilities	-	-	-	243,373	243,373
Depreciation expense	194,789	-	-	46,897	241,686
Total expenses	\$ 525,116	\$ 487,515	\$ 705,649	\$ 1,626,674	\$ 3,344,954

“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
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 651,193	\$ 603,330
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities:		
Depreciation	241,686	253,790
Unrealized (gain) loss on investments	(4,484)	(517,585)
Investment earnings	(101,445)	(108,053)
Changes in operating assets and liabilities:		
(Increase) decrease in assets		
Accounts receivable	(14,743)	(18,188)
Other receivables	83,704	(51,344)
Inventory	(1,117)	(18,087)
Prepaid expenses	17,500	(14,162)
Increase (decrease) in liabilities		
Accrued payroll expenses	(69,592)	68,518
Accrued expenses	597	(1,340)
Accounts payable	(68,008)	(189,330)
Deferred revenue	(99,029)	(23,690)
Total adjustments	<u>(14,931)</u>	<u>(619,471)</u>
Net cash provided (used) by operating activities	<u>636,262</u>	<u>(16,141)</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(121,657)	(91,986)
Purchase of investments	(6,253,149)	-
Proceeds from sale of investments	5,936,092	-
Changes in restricted cash	(2,134)	(2,129)
Note receivable - endowment fund	<u>266,000</u>	<u>434,000</u>
Net cash (used) provided by investing activities	<u>(174,848)</u>	<u>339,885</u>
Cash Flows from Financing Activities		
Principal payments on line of credit	(150)	(500,000)
Principal payments on endowment fund loan	<u>(266,000)</u>	<u>(434,000)</u>
Net cash (used) by financing activities	<u>(266,150)</u>	<u>(934,000)</u>
Increase (decrease) in cash and cash equivalents	195,265	(610,256)
Cash and cash equivalents, beginning of year	<u>213,094</u>	<u>823,350</u>
Cash and Cash Equivalents, End of Year	<u>\$ 408,359</u>	<u>\$ 213,094</u>
Supplemental disclosure		
Cash paid for interest	<u>\$ 8,037</u>	<u>\$ 11,367</u>

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

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2019 and 2018

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 prepared in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) as the source of authoritative accounting principles generally accepted in the United States of America on the accrual basis of accounting with a fiscal year ending June 30.

B. New Accounting Pronouncement

The Corporation retroactively adopted the requirements in accordance with Accounting Standards Board's Accounting Standards Update No. 2016-14-*Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in financial statements.

Amounts previously reported as unrestricted net assets are now reported as assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported assets with donor restrictions. The ASU has been applied retrospectively to the prior year. A footnote on liquidity has also been added (see note 11).

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles. Net assets, revenues, expenses, gains and losses are reported based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of the Corporation's Board and the Executive Committee.

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

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

For the years ended June 30, 2019 and 2018, the Corporation had net assets with donor restrictions in the amount of \$7,188,421 and \$7,081,301, respectively.

D. 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.

E. 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

G. 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.

H. 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.

I. 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.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Reclassification

Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income.

K. 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, 2020. 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 \$399,850 and \$400,000 at June 30, 2019 and 2018, respectively.

L. 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 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, 2019 and 2018, there was no balance due to the State of Maryland. The Corporation met its matching requirement for the years ended June 30, 2019 and 2018 under the terms of the Memorandum of Understanding.

M. Use of Restricted Assets

When an expense is incurred that can be paid using either with donor restricted or without donor restricted resources, the Corporation's policy is to first charge the expense to with donor restricted resources and then to without donor restricted resources.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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.

O. Functional Allocation of Expenses

Costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Costs are allocated between program services and support services. Support service expenses include expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Corporation.

P. Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2019 and 2018, there were no advertising costs.

Q. 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.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Financial Instruments with Concentration of Credit Risk (continued)

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.

S. Reporting for Impairment of Capital Assets and Insurance Recoveries

The Corporation received no insurance recoveries for the years ended June 30, 2019 and 2018. There were no impairments of capital assets.

T. Commitments

During the year ended June 30, 2018, the Corporation entered into an exclusive agreement with Class Act Café and Catering, Inc. to provide catering for events held at the Museum. Catering commissions were calculated on a percentage of gross catering revenues as defined in the agreement. Commission revenue was \$52,959 and \$33,356, for the years ended June 30, 2019 and 2018, respectively.

3. CASH DEPOSIT BALANCES

The following are the carrying value and bank balances of deposits at June 30, 2019 and 2018:

	<u>2019</u>		<u>2018</u>	
	<u>Carrying Amounts</u>	<u>Bank Amounts</u>	<u>Carrying Amounts</u>	<u>Bank Amounts</u>
Demand deposits	\$ 18,220	\$ 212,538	\$ (2,370)	\$ 13,478
Certificate of deposits	1,067,846	1,067,846	1,065,712	1,065,712
Money market accounts	389,239	386,271	214,564	214,089
Total	<u>\$ 1,475,305</u>	<u>\$ 1,666,655</u>	<u>\$ 1,277,906</u>	<u>\$ 1,293,279</u>

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 at June 30, 2019 and 2018, respectively.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2019 and 2018

4. RESTRICTED CASH

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

	<u>2019</u>	<u>2018</u>
Operating endowments	\$ 224,248	\$ 223,800
Education endowments	<u>843,598</u>	<u>841,912</u>
Total	<u>\$ 1,067,846</u>	<u>\$ 1,065,712</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.

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, 2019 and 2018

5. FAIR VALUE MEASUREMENTS (Continued)

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and Money Market Funds	\$ 6,133,094	\$ 988,752
Mutual Funds	<u>2,056,532</u>	<u>6,777,889</u>
Total fair value	<u>\$ 8,189,626</u>	<u>\$ 7,766,641</u>

For the period from July 1, 2018, through June 30, 2019, the application of the valuation techniques applied to similar assets and liabilities has been consistent.

6. INVESTMENTS

Investments are presented at fair value and are composed of the following at June 30, 2019 and 2018.

	<u>2019</u>		<u>2018</u>	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 6,122,369	\$ 6,133,094	\$ 988,752	\$ 988,752
Mutual funds	<u>2,056,271</u>	<u>2,056,532</u>	<u>6,260,304</u>	<u>6,777,889</u>
Total	<u>\$ 8,178,640</u>	<u>\$ 8,189,626</u>	<u>\$ 7,249,056</u>	<u>\$ 7,766,641</u>

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
Notes to Financial Statements
June 30, 2019 and 2018

7. CAPITAL ASSETS

Capital assets consist of the following at June 30, 2019:

Capital Assets	Balance June 30, 2018	Additions	Disposals/ Transfers	Balance June 30, 2019
Equipment	\$ 503,901	\$ 65,292	\$ -	\$ 569,193
Furniture	89,725	-	-	89,725
Permanent exhibit	2,912,491	-	-	2,912,491
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	337,626	56,365	-	393,991
Total	<u>3,863,979</u>	<u>121,657</u>	<u>-</u>	<u>3,985,636</u>
Accumulated depreciation				
Equipment	438,279	24,043	-	462,322
Furniture	89,725	-	-	89,725
Permanent exhibit	2,521,112	194,789	-	2,715,901
Gift shop furniture and fixtures	20,236	-	-	20,236
Building improvements	268,418	22,854	-	291,272
Total	<u>3,337,770</u>	<u>241,686</u>	<u>-</u>	<u>3,579,456</u>
Capital Assets, net	<u>\$ 526,209</u>	<u>\$ (120,029)</u>	<u>\$ -</u>	<u>\$ 406,180</u>

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	301,327	36,299	-	337,626
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	249,647	18,771	-	268,418
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>

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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, 2019, and 2018, the Corporation owed \$127,668 and \$131,190, respectively, to the State of Maryland.

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 \$16,722 and \$17,049 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under operating leases with lease terms of one year or more for the year ended June 30, 2019 are as follows:

2020	11,558
2021	9,654
2022	8,531
2023	<u>2,675</u>
Total	<u>\$ 32,418</u>

10. ENDOWMENT NET ASSETS

The Corporation's endowment consists of individual pledges established by donors to provide annual funding for specific activities and general operations. The Endowment also includes funds that have been designated by the Board of Directors and reported in the statements of financial position as net assets without donor restrictions. The endowment net assets may include endowed unconditional promises to give, which are recognized in the year the commitment is received.

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10. ENDOWMENT NET ASSETS (Continued)

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.

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 net assets with donor restrictions as (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor restricted endowment funds that are not required to be retained in perpetuity 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 twelve quarters.

The changes in endowment net assets are illustrated below, which are maintained in the Without Donor Restrictions and With Donor Restrictions.

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10. ENDOWMENT NET ASSETS (Continued)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, July 1, 2018	\$ 2,017,052	\$ 7,081,301	\$ 9,098,353
Investment return, net	189,813	402,506	592,319
Appropriation of endowment net assets		-	-
pursuant to spending-rate policy	-	(295,386)	(295,386)
Other changes:			
Distribution from board-designated			
endowment pursuant to distribution policy	(137,814)	-	(137,814)
Endowment Net Assets, June 30, 2019	<u>\$ 2,069,051</u>	<u>\$ 7,188,421</u>	<u>\$ 9,257,472</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, July 1, 2017	\$ 1,952,180	\$ 6,952,406	\$ 8,904,586
Investment return, net	202,884	424,883	627,767
Appropriation of endowment net assets			
pursuant to spending-rate policy	-	(295,988)	(295,988)
Other changes:			
Distribution from board-designated			
endowment pursuant to distribution policy	(138,012)	-	(138,012)
Endowment Net Assets, June 30, 2018	<u>\$ 2,017,052</u>	<u>\$ 7,081,301</u>	<u>\$ 9,098,353</u>

At June 30, 2019 and 2018, net assets with donor restrictions are restricted for educational purposes.

MARYLAND AFRICAN AMERICAN MUSEUM CORPORATION
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11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following represents the financial assets available for general expenditures within one year at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 408,359	\$ 213,094
Restricted cash	1,067,846	1,065,712
Investments	8,189,626	7,766,641
Accounts receivable	39,842	25,099
Other receivables	<u>3,391</u>	<u>87,095</u>
Total financial assets	9,709,064	9,157,641
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(7,188,421)	(7,081,301)
Board designated net assets for endowments	<u>(2,069,051)</u>	<u>(2,017,052)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 451,592</u>	<u>\$ 59,288</u>

As part of its liquidity management plan, the Corporation invests cash in excess of daily requirements in short-term Certificate of Deposits and Money Market Funds which are Board designated for endowments and available for appropriation.

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.

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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, 2019 and 2018 in the amounts of \$207,300 and \$203,922, 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 \$64,517 for twenty-four covered employees for the year ended June 30, 2019 and \$58,221 for nineteen covered employees for the year ended June 30, 2018.

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).

15. 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.

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15. NOTE PAYABLE (Continued)

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 paid the remaining balance of \$266,000 during the year ended June 30, 2019.

16. 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 6, 2019 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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