

AVALON FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

AVALON FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of Avalon Foundation, Inc.

Opinion

We have audited the accompanying financial statements of Avalon Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2025 and 2024, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avalon Foundation, Inc. as of June 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Avalon Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Avalon Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Kullman CPA, LLC

Annapolis, Maryland
October 10, 2025

AVALON FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 824,396	\$ 463,520
Accounts Receivable	8,259	3,341
Certificate of Deposit	162,817	-
Prepaid Expenses	<u>48,692</u>	<u>84,247</u>
Total Current Assets	1,044,164	551,108
PROPERTY AND EQUIPMENT, NET	3,013,726	3,035,770
OTHER ASSETS		
Certificates of Deposit	533,604	689,011
Construction in Progress	63,794	-
Contribution Receivable	100,000	100,000
Investments, at Fair Value	2,056,214	2,316,055
Intangible Assets, Net	52,548	40,629
Right-of-Use Asset - Operating Lease	<u>72,016</u>	<u>-</u>
Total Other Assets	<u>2,878,176</u>	<u>3,145,695</u>
Total Assets	<u>\$ 6,936,066</u>	<u>\$ 6,732,573</u>

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

AVALON FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 241,640	\$ 73,450
Accrued Payroll	48,350	42,054
Sales Tax Payable	918	1,552
Accrued Interest Payable	2,153	6,059
Deferred Revenue	183,975	184,552
Operating Lease Liability	17,204	-
Notes Payable	<u>25,560</u>	<u>22,267</u>
Total Current Liabilities	519,800	329,934
LONG-TERM LIABILITIES		
Operating Lease Liability, Net of Current Portion	54,812	-
Notes Payable, Net of Current Portion	<u>585,992</u>	<u>611,418</u>
Total Long-Term Liabilities	<u>640,804</u>	<u>611,418</u>
Total Liabilities	1,160,604	941,352
NET ASSETS		
Without Donor Restrictions	4,857,185	4,772,512
With Donor Restrictions	<u>918,277</u>	<u>1,018,709</u>
Total Net Assets	<u>5,775,462</u>	<u>5,791,221</u>
Total Liabilities and Net Assets	<u>\$ 6,936,066</u>	<u>\$ 6,732,573</u>

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

AVALON FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and Grants:			
Corporations	\$ 55,111	\$ -	\$ 55,111
Foundations	1,000	-	1,000
Government	317,943	-	317,943
Individuals	518,161	263,900	782,061
Capital Grants and Contributions	29,337	-	29,337
Total Revenue and Support	921,552	263,900	1,185,452
PROGRAM AND OTHER REVENUE			
Individual Admissions	1,021,013	-	1,021,013
Facility Rental	30,952	-	30,952
Merchandise Sales	165,727	-	165,727
Admissions Surcharge	57,650	-	57,650
Art Sales Income	526,434	-	526,434
Ticket Handling Fees	89,435	-	89,435
Investment Income	140,314	56,869	197,183
Other Income	2,230	-	2,230
Total Program and Other Revenue	2,033,755	56,869	2,090,624
Net Assets Released from Restrictions	421,201	(421,201)	-
Total Revenue	3,376,508	(100,432)	3,276,076
EXPENSES			
Program Services	2,687,334	-	2,687,334
Supporting Activities:			
Management and General	360,781	-	360,781
Fundraising	243,720	-	243,720
Total Supporting Activities	604,501	-	604,501
Total Expenses	3,291,835	-	3,291,835
Change in Net Assets	84,673	(100,432)	(15,759)
Net Assets, Beginning of Year	4,772,512	1,018,709	5,791,221
Net Assets, End of Year	\$ 4,857,185	\$ 918,277	\$ 5,775,462

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

AVALON FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and Grants:			
Corporations	\$ 55,298	\$ -	\$ 55,298
Foundations	5,000	-	5,000
Government	325,852	-	325,852
Individuals	447,821	253,876	701,697
Capital Grants and Contributions	26,019	1,125	27,144
Total Revenue and Support	859,990	255,001	1,114,991
PROGRAM AND OTHER REVENUE			
Individual Admissions	766,313	-	766,313
Facility Rental	31,797	-	31,797
Merchandise Sales	134,484	-	134,484
Admissions Surcharge	52,000	-	52,000
Art Sales Income	537,716	-	537,716
Ticket Handling Fees	72,875	-	72,875
Employee Retention Credit	265,678	-	265,678
Investment Income	122,073	33,444	155,517
Other Income	5,331	-	5,331
Total Program and Other Revenue	1,988,267	33,444	2,021,711
Net Assets Released from Restrictions	148,841	(148,841)	-
Total Revenue	2,997,098	139,604	3,136,702
EXPENSES			
Program Services	2,480,580	-	2,480,580
Supporting Activities:			
Management and General	354,267	-	354,267
Fundraising	127,691	-	127,691
Total Supporting Activities	481,958	-	481,958
Total Expenses	2,962,538	-	2,962,538
Change in Net Assets	34,560	139,604	174,164
Net Assets, Beginning of Year	4,737,952	879,105	5,617,057
Net Assets, End of Year	\$ 4,772,512	\$ 1,018,709	\$ 5,791,221

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

AVALON FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2025

	Program Services								
	Avalon Theatre Programs	Plein Air Easton	Outdoor Community Projects	Mid-Shore Community Television	Children's Programming	Programs Total	Management and General	Fundraising	Total
Advertising and Promotion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,668	\$ -	\$ 82,668
Art Sales Expenses	-	319,581	-	-	-	319,581	-	-	319,581
Artist Fees	548,303	36,150	18,390	-	46,505	649,348	-	1,000	650,348
Concession Expense	70,330	-	-	-	-	70,330	24	14	70,368
Depreciation and Amortization	135,364	3,530	396	28,340	109,730	277,360	40,612	11,943	329,915
Direct Mail	-	-	-	-	-	-	456	246	702
Dues and Licenses	5,345	-	-	1,888	-	7,233	3,839	-	11,072
Educational Expenses	2,854	-	-	-	-	2,854	450	-	3,304
Employee Benefits and Payroll Taxes	82,954	26,095	9,164	8,073	12,742	139,028	18,845	33,442	191,315
Insurance	15,970	417	47	3,343	12,946	32,723	4,791	1,409	38,923
Interest	5,757	150	17	1,205	4,666	11,795	1,727	508	14,030
Office and Other Supplies	1,962	3,098	42	29	2,598	7,729	3,925	958	12,612
Production	144,897	136,405	2,195	1,250	6,689	291,436	14,986	13,365	319,787
Professional Fees	213	2,200	-	-	-	2,413	51,564	4,316	58,293
Rent and Occupancy	18,523	483	54	3,878	15,015	37,953	5,558	1,634	45,145
Repairs and Maintenance	41,339	1,078	121	8,655	33,510	84,703	12,402	3,647	100,752
Salaries	415,340	130,655	45,883	40,423	63,795	696,096	94,352	167,439	957,887
Subcontracted Services	13,706	2,030	-	-	2,560	18,296	19,030	721	38,047
Telephone	4,298	1,352	475	418	660	7,203	976	1,732	9,911
Utilities	15,253	398	45	3,193	12,364	31,253	4,576	1,346	37,175
Total Expenses	\$ <u>1,522,408</u>	\$ <u>663,622</u>	\$ <u>76,829</u>	\$ <u>100,695</u>	\$ <u>323,780</u>	\$ <u>2,687,334</u>	\$ <u>360,781</u>	\$ <u>243,720</u>	\$ <u>3,291,835</u>

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

AVALON FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024

	Program Services								
	Avalon Theatre Programs	Plein Air Easton	Outdoor Community Projects	Mid-Shore Community Television	Children's Programming	Programs Total	Management and General	Fundraising	Total
Advertising and Promotion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 76,633	\$ -	\$ 76,633
Art Sales Expenses	-	328,727	-	-	-	328,727	-	-	328,727
Artist Fees	345,585	36,237	19,500	-	40,700	442,022	-	-	442,022
Concession Expense	60,580	980	-	-	-	61,560	271	-	61,831
Depreciation and Amortization	140,311	4,071	420	29,174	111,654	285,630	33,761	3,683	323,074
Direct Mail	-	-	-	-	-	-	420	4,128	4,548
Dues and Licenses	4,077	131	-	1,643	-	5,851	4,438	430	10,719
Educational Expenses	2,816	-	-	-	-	2,816	208	129	3,153
Employee Benefits and Payroll Taxes	84,678	25,708	9,924	9,111	11,237	140,658	15,093	17,133	172,884
Insurance	9,909	288	30	2,060	7,885	20,172	2,384	260	22,816
Interest	6,152	179	18	1,279	4,896	12,524	1,480	161	14,165
Office and Other Supplies	2,940	2,342	210	146	5,754	11,392	4,940	992	17,324
Production	143,564	123,965	42,918	4,366	13,832	328,645	8,254	6,493	343,392
Professional Fees	3,768	1,200	-	-	-	4,968	98,512	9,724	113,204
Rent and Occupancy	17,374	504	52	3,612	13,826	35,368	4,181	456	40,005
Repairs and Maintenance	41,711	798	82	5,720	21,893	70,204	6,620	722	77,546
Salaries	405,370	123,067	47,506	43,616	53,796	673,355	72,251	82,017	827,623
Subcontracted Services	11,719	700	6,600	-	-	19,019	20,456	-	39,475
Telephone	4,850	1,473	568	522	644	8,057	865	981	9,903
Utilities	14,546	422	43	3,025	11,576	29,612	3,500	382	33,494
Total Expenses	\$ <u>1,299,950</u>	\$ <u>650,792</u>	\$ <u>127,871</u>	\$ <u>104,274</u>	\$ <u>297,693</u>	\$ <u>2,480,580</u>	\$ <u>354,267</u>	\$ <u>127,691</u>	\$ <u>2,962,538</u>

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

AVALON FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (15,759)	\$ 174,164
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	329,915	323,074
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(4,918)	(2,359)
Prepaid Expenses	35,555	(20,907)
Accounts Payable	(17,984)	13,242
Accrued Payroll	6,296	6,790
Sales Tax Payable	(634)	966
Accrued Interest Payable	(3,906)	(2,108)
Deferred Revenue	<u>(577)</u>	<u>100,177</u>
Net Cash Provided by Operating Activities	327,988	593,039
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase and Redemption of Certificates of Deposit, Net	(7,410)	(9,250)
Purchase and Reinvestment of Investment Income, Net	259,841	(495,915)
Purchase of Property and Equipment	<u>(197,410)</u>	<u>(58,330)</u>
Net Cash Provided (Used) by Investing Activities	55,021	(563,495)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	<u>(22,133)</u>	<u>(16,301)</u>
Net Cash Used by Financing Activities	<u>(22,133)</u>	<u>(16,301)</u>
Net Increase in Cash and Cash Equivalents	360,876	13,243
Cash and Cash Equivalents, Beginning of Year	<u>463,520</u>	<u>450,277</u>
Cash and Cash Equivalents, End of Year	<u>\$ 824,396</u>	<u>\$ 463,520</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS:		
Interest Paid	\$ <u>17,936</u>	\$ <u>16,273</u>
Cash Paid for Operating Lease Under ASC 842	\$ <u>34,500</u>	\$ <u>27,500</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:		
Property and Equipment Purchased through Accounts Payable	\$ <u>186,174</u>	\$ <u>-</u>

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

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Avalon Foundation, Inc. (Foundation) was established in 1993 as a non-profit corporation organized under the laws of the State of Maryland. The Foundation's mission is to foster a strong community on the Eastern Shore by creating accessible, uplifting arts, education, and cultural experiences that appeal to the interests of a diverse population and to ensure the long-term viability of the historic Avalon Theatre (Theatre). It accomplishes this by presenting diversified arts and educational programs, working with other organizations that serve the community, serving as a facilitator and resource for community groups, and acting as a home for arts organizations.

The Foundation serves the community through five major programs: Avalon Theatre, Plein Air Easton, Outdoor Community Projects, Children's Programming, and Mid-Shore Community Television (MCTV), a public access television station.

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

Basis of Accounting and Presentation

The Foundation prepares its financial statements on the accrual basis method of accounting.

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The net assets may be used at the discretion of the Foundation's management and the Board of Trustees.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Presentation (Continued)

Net Assets With Donor Restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents

The Foundation's cash consists of cash on deposit with banks and cash that the Foundation's Board of Trustees has established a separate bank account for capital funds. The purpose of the account is to segregate funds raised for capital improvements through donations and ticket admission surcharges. Cash Equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

Cash and cash equivalents consisted of the following at June 30:

	<u>2025</u>	<u>2024</u>
Cash - Operating	\$ 256,085	\$ 220,621
Cash - Capital Fund	132,141	242,899
Money Market Funds - Operating	42,772	-
Money Market Funds - Capital Fund	<u>393,398</u>	<u>-</u>
Total Cash and Cash Equivalents	\$ <u>824,396</u>	\$ <u>463,520</u>

Concentration of Credit Risk

The Foundation maintains a majority of their cash balances and certificates of deposit at one financial institution. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation has not experienced any loss in such accounts, and believes it is not exposed to any significant credit risk on its cash balances. As of June 30, 2025 and 2024, the uninsured balances totaled \$859,793 and \$892,981, respectively.

The Foundation maintains its investments at a brokerage firm. A brokerage firm is required to segregate client assets from their own to ensure the client assets are protected in case of the brokerage firm's insolvency. Assets that are not segregated, such as money market accounts, are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. As of June 30, 2025 and 2024, the amount of money market funds uninsured by the SIPC totaled \$0 and \$739,540, respectively.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts and Contributions Receivable

The Foundation reports receivables at amounts estimated to be collectible. An allowance is provided for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. For the years ended June 30, 2025 and 2024, management deemed all receivables to be collectible.

Certificates of Deposit

Certificates of deposit (CDs) are carried at cost plus accrued interest. CDs with remaining maturities of less than one year are accounted for as current assets in the statements of financial position.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an organization's assumptions (unobservable inputs). The Foundation groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment, and Depreciation

Property and equipment are stated at cost at the date of purchase, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. The Foundation's policy is to capitalize property and equipment acquired for greater than \$2,500 and expense normal repairs and maintenance as incurred.

Intangible Assets and Amortization

Costs incurred in the development of the Foundation's website and its Plein Air Easton website are capitalized. Amortization is computed using the straight-line method over five years.

Deferred Revenue

Deferred revenue consists of cash received for gift certificates not yet redeemed, art presales for the Plein Air event occurring in the next fiscal year, and ticket sales for performances taking place after the fiscal year end.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the contribution is recognized.

All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

In-Kind Contributions

The Foundation receives services from a large number of volunteers who give significant amounts of their time to the Foundation's programs and administrative activities, but which do not meet the criteria for recognition in the financial statements.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Revenue

In accordance with FASB ASC 606, *Revenue from Contracts with Customers*, the Foundation recognizes revenue upon transfer of promised goods or services to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services.

Income Taxes

The Foundation is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. There was no unrelated business income for the years ending June 30, 2025 and 2024. The Foundation has processes in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expense	Method of Allocation
Depreciation	Square Footage Based Percentage
Employee Benefits and Payroll Taxes	Payroll Based Percentage
Insurance	Square Footage Based Percentage
Interest	Square Footage Based Percentage
Rent and Occupancy	Square Footage Based Percentage
Repairs and Maintenance	Square Footage Based Percentage
Salaries	Payroll Based Percentage
Telephone	Payroll Based Percentage
Utilities	Square Footage Based Percentage

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Foundation follows FASB ASC 842, *Leases*, and has elected not to separate components of a contract, and not to recognize any lease with a term less than twelve months. For leases with a lease term greater than one year, the Foundation recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. The Foundation determines whether an arrangement is or contains a lease at contract inception. Operating leases with a duration greater than one year are included in right-of-use asset - operating lease, operating lease liability, and operating lease liability, net of current portion on the Foundation's statements of financial position. Right-of-use asset - operating lease and operating lease liability are recognized at the lease commencement date based on the present value of lease payments over the lease term.

In determining the present value of lease payments, the Foundation uses a risk-free discount rate determined using a period comparable to that of the lease term. The Foundation considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Foundation is reasonably certain to exercise the option, (2) terminate the lease if the Foundation is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

The right-of-use asset - operating lease also includes any lease payments made and excludes lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred.

Sales Tax Payable

The Foundation presents sales tax charged on sales of merchandise and art on a net basis. Therefore, such taxes are excluded from sales, and are reflected as a liability, which is satisfied when remitted to the governmental authority.

Advertising

The Foundation follows the practice of charging the cost of advertising to expense as incurred. For the years ended June 30, 2025 and 2024, advertising expenses to promote the Foundation's programs totaled \$82,668 and \$76,633, respectively.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 - AVAILABILITY AND LIQUIDITY

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

	<u>2025</u>	<u>2024</u>
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 824,396	\$ 463,520
Certificates of Deposit	696,421	689,011
Accounts and Contribution Receivable	108,258	103,341
Investments, at Fair Value	<u>2,056,214</u>	<u>2,316,055</u>
Total Financial Assets	3,685,289	3,571,927
Less Amounts Not Available to be Used for General Operations Within One Year:		
Board Designated Funds	(525,539)	(402,303)
Net Assets With Donor Restrictions	<u>(918,277)</u>	<u>(1,018,709)</u>
Total Amounts Not Available to be Used Within One Year	<u>(1,443,816)</u>	<u>(1,421,012)</u>
Financial Assets Available to Meet General Expenditures Over the Next 12 Months	<u>\$ 2,241,473</u>	<u>\$ 2,150,915</u>

The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses. The Foundation has a \$250,000 line of credit available to meet normal operating cash flow needs.

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	<u>2025</u>	<u>2024</u>
Land, Buildings, and Improvements	\$ 4,494,185	\$ 4,251,034
Furniture and Fixtures	727,503	717,643
Software	<u>4,842</u>	<u>4,842</u>
Total Property and Equipment	5,226,530	4,973,519
Less: Accumulated Depreciation	<u>(2,212,804)</u>	<u>(1,937,749)</u>
Total Property and Equipment, Net	<u>\$ 3,013,726</u>	<u>\$ 3,035,770</u>

For the years ended June 30, 2025 and 2024, depreciation expense totaled \$321,614 and \$319,703, respectively.

On November 30, 2021, the Stoltz Pavilion was taken out of service and stored for future use. Depreciation has ceased and will continue if it is placed back in service. At June 30, 2025 and 2024, the cost of this fixed asset was \$220,580, and accumulated depreciation on this fixed asset totals \$22,354.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 3 - PROPERTY AND EQUIPMENT, NET (CONTINUED)

During the year ended June 30, 2025, the Foundation began renovation and upgrade projects totaling \$63,794, which are included in construction in progress on the Foundation's statements of financial position. Depreciation will begin when these assets are placed in service.

NOTE 4 - INVESTMENTS, AT FAIR VALUE

The following presents the Foundation's hierarchy for assets, measured at fair value, as of:

	June 30, 2025			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 1,246,468	\$ -	\$ -	\$ 1,246,468
Exchange Traded Funds	801,472	-	-	801,472
Funds Invested by Mid-Shore Community Foundation	<u>8,274</u>	<u>-</u>	<u>-</u>	<u>8,274</u>
Total Investments at Fair Value	<u>\$ 2,056,214</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,056,214</u>

	June 30, 2024			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 1,408,182	\$ -	\$ -	\$ 1,408,182
Mutual Funds	203,979	-	-	203,979
Exchange Traded Funds	696,026	-	-	696,026
Funds Invested by Mid-Shore Community Foundation	<u>7,868</u>	<u>-</u>	<u>-</u>	<u>7,868</u>
Total Investments at Fair Value	<u>\$ 2,316,055</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,316,055</u>

For the years ended June 30, 2025 and 2024, included in investments was \$8,274 and \$7,868, respectively, designated by Mid-Shore Community Foundation. Such investments were with donor restrictions.

In accordance with the Gift Agreement signed in January 2020, the Foundation established a separate account to maintain the Stoltz Listening Room (SLR) endowment fund. The amount maintained in this account at June 30, 2025 and 2024 totaled \$111,322 and \$104,105, respectively.

The Foundation has established an investment account for the Sara B. Ryan Fund. Contributions to this account and the investment returns are exclusively restricted for Children's Programming in perpetuity. The amount maintained in this account at June 30, 2025 and 2024 was \$520,169 and \$378,010, respectively.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 4 - INVESTMENTS, AT FAIR VALUE (CONTINUED)

The Foundation established a separate account for board designated funds. The amount maintained in this account at June 30, 2025 and 2024 was \$393,398 and \$317,760, respectively.

NOTE 5 - INTANGIBLE ASSETS, NET

Intangible assets consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Website Development Costs	\$ 64,220	\$ 44,000
Less: Accumulated Amortization	<u>(11,672)</u>	<u>(3,371)</u>
Intangible Assets, Net	\$ <u>52,548</u>	\$ <u>40,629</u>

Amortization expense for the years ended June 30, 2025 and 2024 was \$8,301 and \$3,371, respectively. Amortization expense for each of the next five years is:

2026	\$ 12,844
2027	12,844
2028	12,844
2029	9,473
2030	<u>4,543</u>
Total	\$ <u>52,548</u>

NOTE 6 - LINE OF CREDIT

The Foundation has a \$250,000 unsecured line of credit with Shore United Bank. The line bears interest at the prime rate plus 0.50% per annum and renews annually. As of June 30, 2025 and 2024, available credit on the line was \$250,000 and the outstanding balance was \$0. No amounts were drawn on the line of credit during the years ended June 30, 2025 and 2024.

NOTE 7 - DISSOLUTION OF THE AVALON CONDOMINIUM

The Avalon Condominium (Condominium) was established for the purpose of maintaining the Avalon Building and was administered by the council of unit owners. Prior to fiscal year 2024, the Foundation had obtained 100% ownership interest in the Avalon Building. On March 11, 2024, the Foundation voted to terminate the Condominium and transfer all assets of the Condominium into the Foundation. Assets of the Condominium consisted of cash in the bank totaling \$24,722.

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 8 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2025</u>	<u>2024</u>
Note payable to the U.S. Small Business Administration with an interest rate of 2.75% per annum; Interest accruing at a rate of \$11.30/day, starting July 10, 2020; monthly interest payments of \$641 began January 7, 2023; monthly principal and interest payments of \$641, beginning November 7, 2025; final principal and interest payment of \$24,027 on July 7, 2050. Accrued interest payable at June 30, 2025 and 2024 totaled \$1,384 and \$5,253, respectively. The note is secured by a lien on all assets owned by the Foundation.	\$ 150,000	\$ 150,000
Note payable to Shore United Bank with an interest rate of 2.00% per annum; monthly interest payments, beginning October 14, 2022; monthly principal and interest payments of \$2,645, beginning October 14, 2023; final principal and interest payment of \$412,762 on September 14, 2027. The note is secured by a certificate of deposit held with Shore United Bank.	<u>461,552</u>	<u>483,685</u>
Total Notes Payable	611,552	633,685
Less: Current Portion of Notes Payable	<u>(25,560)</u>	<u>(22,267)</u>
Total Long-Term Notes Payable	\$ <u><u>585,992</u></u>	\$ <u><u>611,418</u></u>

The following presents the maturity of the notes payable as of:

June 30, 2026	\$ 25,560
June 30, 2027	26,867
June 30, 2028	419,454
June 30, 2029	3,900
June 30, 2030	4,009
Thereafter	<u>131,762</u>
Total	\$ <u><u>611,552</u></u>

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 9 - LEASE COMMITMENTS

On September 28, 2024, the Foundation entered into a lease agreement for office space located at 39 East Dover Street for a two-year period commencing October 1, 2024, and ending September 30, 2026. The lease offers three one-year renewal options, which the Foundation is reasonably certain to exercise. The initial monthly rental payments are \$1,500 and subject to a 3% increase with each renewal option. On October 1, 2024, the Foundation measured the lease liability and right-of-use asset at \$85,321, which is the net present value of the remaining lease payments discounted using a risk-free interest rate of 3.51%. At June 30, 2025, the operating lease liability and right-of-use asset was \$72,016. Rent expense was \$13,500 for the year ended June 30, 2025.

The operating lease matures as follows:

June 30, 2026	\$ 18,000
June 30, 2027	18,405
June 30, 2028	18,957
June 30, 2029	19,526
June 30, 2030	<u>4,917</u>
Total Undiscounted	79,805
Less: Discount	<u>(7,789)</u>
Total	<u>\$ 72,016</u>

On August 29, 2024, the Foundation entered into a 12-month lease for storage space located in Easton, Maryland. The lease commenced June 1, 2024, and has an annual rental payment of \$21,000 payable in full on the first day of the leasing period. The Foundation has the option to renew the lease for up to four consecutive years and has elected to exercise the first year of this option during fiscal year 2025. Either party may terminate this lease upon 90-day written notice.

The Foundation recognized lease expense associated with its leases as follows for the years ended June 30:

	<u>2025</u>	<u>2024</u>
Committed Operating Lease Costs	\$ 13,500	\$ -
Other Operating Lease Costs	<u>21,000</u>	<u>29,250</u>
Total	<u>\$ 34,500</u>	<u>\$ 29,250</u>

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 10 - DISAGGREGATION OF REVENUE

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

	<u>2025</u>	<u>2024</u>
Revenue Recognized at a Point in Time:		
Individual Admissions	\$ 1,021,013	\$ 766,313
Facility Rental	30,952	31,797
Merchandise Sales	165,727	134,484
Admission Surcharge Fees	57,650	52,000
Art Sales Income	526,434	537,716
Ticket Handling Fees	<u>89,435</u>	<u>72,875</u>
Total Revenue Recognized at a Point in Time	<u>1,891,211</u>	<u>1,595,185</u>
Total Revenue from Contracts with Customers	\$ <u>1,891,211</u>	\$ <u>1,595,185</u>

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

NOTE 11 - RETIREMENT PLAN

The Foundation has a SIMPLE IRA plan. All employees who have been employed for more than twelve months and have earned more than \$5,000 annually are eligible to participate in the plan. The Foundation makes a matching contribution of 50% of employee deferrals up to 3% of a participant's annual salary. For the years ended June 30, 2025 and 2024, matching contributions totaled \$24,897 and \$21,709, respectively.

NOTE 12 - BOARD DESIGNATED FUNDS

Board designated funds consist of admission surcharge fees and interest income that are designated for capital improvements. A portion of the capital improvement fund is maintained in a separate bank account (see Note 1), and the remaining portion is maintained in a separate investment account (see Note 4). Board designated funds consisted of the following at June 30:

	<u>2025</u>	<u>2024</u>
Capital Improvement Fund - Cash	\$ 132,141	\$ 84,543
Capital Improvement Fund - Money Market Funds	393,398	-
Capital Improvement Fund - Investments	<u>-</u>	<u>317,760</u>
Total	\$ <u>525,539</u>	\$ <u>402,303</u>

AVALON FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 13 - NET ASSETS

The following net assets were released from donor restrictions for the years ended June 30:

	<u>2025</u>	<u>2024</u>
Support for Theatre Programs	\$ 267,201	\$ 1,451
Support for Outdoor Programs	133,000	147,390
Support for Children's Programming	<u>21,000</u>	<u>-</u>
Total	\$ <u>421,201</u>	\$ <u>148,841</u>

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

	<u>2025</u>	<u>2024</u>
Support for Theatre Programs	\$ 222,572	\$ 471,306
Support for Outdoor Programs	120,688	133,000
Support for Children's Programming	520,169	378,010
Support for Children's Program Scholarships	18,050	-
Support for Operations and Other Programming	<u>36,798</u>	<u>36,393</u>
Total	\$ <u>918,277</u>	\$ <u>1,018,709</u>

NOTE 14 - SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through October 10, 2025, the date that the financial statements were available to be issued. The Foundation is not aware of any significant events that occurred subsequent to the statements of financial position date that would have a material impact on the financial statements.