

THE BALTIMORE CHILDREN'S MUSEUM, INC.
FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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Independent Auditor's Report

To the Board of Directors
The Baltimore Children's Museum, Inc.

Opinion

We have audited the accompanying financial statements of The Baltimore Children's Museum, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, 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 The Baltimore Children's Museum, Inc. as of June 30, 2022 and 2021, 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 The Baltimore Children's Museum, 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 The Baltimore Children's Museum, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Independent Auditor's Report (Continued)

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, including omissions, 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 The Baltimore Children's Museum, 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 The Baltimore Children's Museum, 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.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
October 24, 2022

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents, unrestricted	\$ 968,134	\$ 1,016,557
Accounts receivable	230,259	531,140
Contributions receivable, current, net	131,623	167,722
Grants receivable	120,230	111,324
Prepaid expenses	52,152	72,525
Total Current Assets	<u>1,502,398</u>	<u>1,899,268</u>
Property, net of accumulated depreciation	<u>14,649,222</u>	<u>14,685,834</u>
Other Assets		
Cash and cash equivalents, restricted	1,384,092	1,554,113
Investments, board designated	923,085	1,079,633
Contributions receivable, long-term and restricted, net	509,760	750,306
Prepaid expenses, long term	30,000	18,167
Deferred compensation investments	-0-	209,772
Total Other Assets	<u>2,846,937</u>	<u>3,611,991</u>
Total Assets	<u><u>\$ 18,998,557</u></u>	<u><u>\$ 20,197,093</u></u>

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 888,635	\$ 810,330
Contract liabilities	172,386	191,917
Current portion of capital lease obligations	2,357	7,823
Total Current Liabilities	<u>1,063,378</u>	<u>1,010,070</u>
Non-Current Liabilities		
Capital lease obligations, net of current portion	-0-	2,357
Deferred compensation	-0-	207,715
Deferred revenue, non-current	-0-	566,753
Total Non-Current Liabilities	<u>-0-</u>	<u>776,825</u>
Total Liabilities	<u>1,063,378</u>	<u>1,786,895</u>
Commitments and Contingencies (Notes 10, 13, 14, 17, and 18)		
Net Assets		
Without donor restrictions		
Undesignated	14,805,989	14,673,332
Board designated	923,085	1,079,633
Total without donor restrictions	<u>15,729,074</u>	<u>15,752,965</u>
With donor restrictions	2,206,105	2,657,233
Total Net Assets	<u>17,935,179</u>	<u>18,410,198</u>
Total Liabilities and Net Assets	<u>\$ 18,998,557</u>	<u>\$ 20,197,093</u>

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

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Statements of Activities
Years Ended June 30, 2022 and 2021

	2022				2021		
	Without Donor Restrictions	With Donor Restrictions	Total		Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue							
Admissions	\$ 1,499,814	\$ -0-	\$ 1,499,814		\$ 386,133	\$ -0-	\$ 386,133
Memberships, family and corporate	345,114	-0-	345,114		136,744	-0-	136,744
Other program income	137,436	-0-	137,436		92,426	-0-	92,426
Rental income	8,288	-0-	8,288		-0-	-0-	-0-
Contributions	570,821	413,090	983,911		860,084	1,459,214	2,319,298
Government grants	1,300,654	455,357	1,756,011		1,755,844	124,971	1,880,815
Benefit events	239,030	-0-	239,030		234,887	-0-	234,887
Gifts-in-kind	79,891	-0-	79,891		83,763	-0-	83,763
Net investment return	(98,630)	-0-	(98,630)		232,135	-0-	232,135
Loss on disposal of property	(322)	-0-	(322)		-0-	-0-	-0-
Other income	18,163	-0-	18,163		8,931	-0-	8,931
Net assets released from restrictions:							
Satisfaction of program restrictions	181,041	(181,041)	-0-		235,053	(235,053)	-0-
Satisfaction of property acquisition restrictions	1,022,034	(1,022,034)	-0-		33,599	(33,599)	-0-
Expiration of time restrictions	116,500	(116,500)	-0-		52,500	(52,500)	-0-
Total Support and Revenue	5,419,834	(451,128)	4,968,706		4,112,099	1,263,033	5,375,132
Expenses							
Salaries and benefits	2,815,156	-0-	2,815,156		2,296,392	-0-	2,296,392
Occupancy, maintenance and supplies	606,110	-0-	606,110		566,656	-0-	566,656
Exhibits and programs	237,432	-0-	237,432		181,601	-0-	181,601
Professional fees	175,888	-0-	175,888		72,535	-0-	72,535
Advertising and promotion	163,825	-0-	163,825		86,020	-0-	86,020
Benefit events	85,545	-0-	85,545		27,178	-0-	27,178
Interest expense	2,140	-0-	2,140		21,524	-0-	21,524
Other expenses	156,757	-0-	156,757		71,484	-0-	71,484
Total Expenses before Depreciation	4,242,853	-0-	4,242,853		3,323,390	-0-	3,323,390
Depreciation	1,200,872	-0-	1,200,872		1,221,123	-0-	1,221,123
Total Expenses	5,443,725	-0-	5,443,725		4,544,513	-0-	4,544,513
Change in Net Assets	(23,891)	(451,128)	(475,019)		(432,414)	1,263,033	830,619
Net Assets, Beginning of Year	15,752,965	2,657,233	18,410,198		16,185,379	1,394,200	17,579,579
Net Assets, End of Year	\$ 15,729,074	\$ 2,206,105	\$ 17,935,179		\$ 15,752,965	\$ 2,657,233	\$ 18,410,198

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

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Statement of Functional Expenses
Year Ended June 30, 2022

	Supporting Services		
	Program Services	Management and General Administrative	Total Management and General
Salaries and Benefits			
Salaries and wages	\$ 1,476,979	\$ 425,534	\$ 268,035
Employee benefits	98,551	38,064	21,885
Payroll taxes	116,529	21,301	19,384
Total Salaries and Benefits	1,692,059	484,899	309,304
Occupancy, Maintenance and Supplies			
Utilities	174,863	4,503	4,503
Repairs and maintenance	154,606	-0-	-0-
Equipment and supplies	60,132	21,826	32,654
Insurance	90,836	4,754	-0-
Rent	48,000	-0-	-0-
Total Occupancy, Maintenance and Supplies	528,437	31,083	37,157
Other Expenses			
Depreciation	1,166,593	11,427	11,427
Exhibits and programs	237,432	-0-	-0-
Professional fees	2,387	79,586	65,915
Advertising and promotion	-0-	-0-	163,825
Benefit events	-0-	-0-	-0-
Credit card fees	68,229	-0-	-0-
Interest expense	159	1,665	158
Other expenses	32,800	43,389	14,191
Total Other Expenses	1,507,600	136,087	255,516
Total Expenses by Function for the Year Ended June 30, 2022	\$ 3,728,096	\$ 652,049	\$ 601,977

	Supporting Services		Total Supporting Services	Total Expenses
	Fundraising	Cost of Direct Benefits to Donors		
Salaries and Benefits	\$ 283,673	\$ -0-	\$ 977,242	\$ 2,454,221
Occupancy, Maintenance and Supplies	25,049	-0-	84,998	183,549
Other Expenses	20,172	-0-	60,857	177,386
	328,894	-0-	1,123,097	2,815,156
Utilities	4,503	-0-	13,509	188,372
Repairs and maintenance	-0-	-0-	-0-	154,606
Equipment and supplies	4,930	-0-	59,410	119,542
Insurance	-0-	-0-	4,754	95,590
Rent	-0-	-0-	-0-	48,000
	9,433	-0-	77,673	606,110
Depreciation	11,425	-0-	34,279	1,200,872
Exhibits and programs	-0-	-0-	-0-	237,432
Professional fees	28,000	-0-	173,501	175,888
Advertising and promotion	-0-	-0-	163,825	163,825
Benefit events	6,466	79,079	85,545	85,545
Credit card fees	1,895	-0-	1,895	70,124
Interest expense	158	-0-	1,981	2,140
Other expenses	(3,747)	-0-	53,833	86,633
	44,197	79,079	514,859	2,022,459
Total Expenses by Function for the Year Ended June 30, 2022	\$ 382,524	\$ 79,079	\$ 1,715,629	\$ 5,443,726

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

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services	Supporting Services		Total Management and General
		Management and General Administrative	Marketing	
Salaries and Benefits				
Salaries and wages	\$ 997,245	\$ 342,968	\$ 232,942	\$ 575,908
Employee benefits	77,066	42,286	22,757	65,043
Payroll taxes	100,821	16,184	16,506	32,690
Total Salaries and Benefits	<u>1,175,132</u>	<u>401,436</u>	<u>272,205</u>	<u>673,641</u>
Occupancy, Maintenance and Supplies				
Utilities	158,905	5,466	5,466	10,932
Repairs and maintenance	138,540	-0-	-0-	-0-
Insurance	108,550	4,529	-0-	4,529
Equipment and supplies	51,969	23,340	12,172	35,512
Rent	48,000	-0-	-0-	-0-
Total Occupancy, Maintenance and Supplies	<u>505,964</u>	<u>33,335</u>	<u>17,638</u>	<u>50,973</u>
Other Expenses				
Depreciation	1,177,893	14,411	14,410	28,821
Exhibits and programs	181,601	-0-	-0-	-0-
Advertising and promotion	-0-	-0-	86,020	86,020
Professional fees	1,000	53,535	-0-	53,535
Benefit events	-0-	-0-	-0-	-0-
Interest expense	13,546	7,068	455	7,523
Credit card fees	17,642	-0-	-0-	-0-
Other expenses	15,579	19,269	3,763	23,032
Total Other Expenses	<u>1,407,261</u>	<u>94,283</u>	<u>104,648</u>	<u>198,931</u>
Total Expenses by Function for the Year Ended June 30, 2021	<u>\$ 3,088,357</u>	<u>\$ 529,054</u>	<u>\$ 394,491</u>	<u>\$ 923,545</u>

Fundraising	Supporting Services		Total Expenses
	Cost of Direct Benefits to Donors	Total Supporting Services	
\$ 391,777	\$ -0-	\$ 967,685	\$ 1,964,930
28,080	-0-	93,123	170,189
27,762	-0-	60,452	161,273
<u>447,619</u>	<u>-0-</u>	<u>1,121,260</u>	<u>2,296,392</u>
5,466	-0-	16,398	175,303
-0-	-0-	-0-	138,540
-0-	-0-	4,529	113,079
4,253	-0-	39,765	91,734
-0-	-0-	-0-	48,000
<u>9,719</u>	<u>-0-</u>	<u>60,692</u>	<u>566,656</u>
14,409	-0-	43,230	1,221,123
-0-	-0-	-0-	181,601
-0-	-0-	86,020	86,020
18,000	-0-	71,535	72,535
13,541	13,637	27,178	27,178
455	-0-	7,978	21,524
3,045	-0-	3,045	20,687
12,186	-0-	35,218	50,797
<u>61,636</u>	<u>13,637</u>	<u>274,204</u>	<u>1,681,465</u>
<u>\$ 518,974</u>	<u>\$ 13,637</u>	<u>\$ 1,456,156</u>	<u>\$ 4,544,513</u>

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

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (475,019)	\$ 830,619
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,200,872	1,221,123
Loss on disposal of property	322	-0-
Amortization of pledge discount	(3,442)	(8,350)
Amortization of deferred financing costs (non-cash interest expense)	-0-	11,405
Net losses (gains) on investments	122,164	(206,810)
Changes in operating assets and liabilities:		
Accounts receivable	300,881	(517,826)
Contributions receivable	280,087	269,403
Grants receivable	(8,906)	(99,669)
Prepaid expenses	8,540	(452)
Accounts payable and accrued expenses	120,736	(53,426)
Contract liabilities	(19,531)	28,933
Deferred compensation	(207,715)	47,329
Deferred revenue, non-current	(566,753)	(21,147)
Net Cash Provided by Operating Activities	<u>752,236</u>	<u>1,501,132</u>
Cash Flows from Investing Activities		
Acquisition of property	(1,207,013)	(172,716)
Change in deferred compensation investments	209,772	(26,059)
Proceeds from sale of investments	105,284	612,832
Purchase of investments	(70,900)	(529,633)
Net Cash Used in Investing Activities	<u>(962,857)</u>	<u>(115,576)</u>
Cash Flows from Financing Activities		
Principal payments on capital lease obligations	(7,823)	(12,051)
Proceeds from long-term debt	-0-	32,433
Principal payments on long term debt	-0-	(238,617)
Net Cash Used in Financing Activities	<u>(7,823)</u>	<u>(218,235)</u>
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	(218,444)	1,167,321
Cash and Cash Equivalents and Restricted Cash Beginning of Year	<u>2,570,670</u>	<u>1,403,349</u>
Cash and Cash Equivalents and Restricted Cash End of Year	<u><u>\$ 2,352,226</u></u>	<u><u>\$ 2,570,670</u></u>

	<u>2022</u>	<u>2021</u>
Reconciliation to Cash, Cash Equivalents and Restricted Cash on the Statements of Financial Position		
Cash and cash equivalents, unrestricted	\$ 968,134	\$ 1,016,557
Cash and cash equivalents, restricted	1,384,092	1,554,113
Cash, Cash Equivalents and Restricted Cash on the Statements of Cash Flows	<u>\$ 2,352,226</u>	<u>\$ 2,570,670</u>
Supplemental Disclosures of Cash Flow Information:		
Income taxes paid	<u>\$ -0-</u>	<u>\$ 81</u>
Interest paid	<u>\$ 634</u>	<u>\$ 3,922</u>
Noncash investing and financing activities:		
Acquisitions of property	\$ 1,164,582	\$ 227,982
Change in property included in accounts payable and accrued expenses	<u>42,431</u>	<u>(55,266)</u>
Cash acquisitions of property (included in cash flows from investing activities)	<u>\$ 1,207,013</u>	<u>\$ 172,716</u>

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

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies

The Baltimore Children's Museum, Inc. (the Museum) was incorporated under the laws of Maryland on February 19, 1993, and has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code (IRC) that is publicly supported and, therefore, is not a private foundation.

The Museum operates Port Discovery Children's Museum in Baltimore City's Inner Harbor area. The Museum's mission is to connect purposeful play and learning within its walls and beyond.

The accounting and reporting policies of the Museum conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Museum classifies all investments which are readily convertible to cash and which have a maturity of three months or less when purchased as cash equivalents.

Cash and Cash Equivalents, Restricted: Restricted cash and cash equivalents represent cash restricted by donors.

Accounts Receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts by reviewing its outstanding accounts and its historical collection experience with individual accounts and payor sources. Receivables are written off by management when, in its determination, all collection efforts have been exhausted. Recoveries of receivables previously written off are recorded when collected. Management has determined that the accounts receivable as of June 30, 2022 and 2021, are fully collectible and, therefore, has not established an allowance for doubtful accounts.

Contributions Receivable: Unconditional promises to give are recorded as contributions receivable and recognized as revenue in the period received. A provision is made for uncollectible contributions based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding contributions receivable. Contributions receivable are written off by management when, in its determination, all appropriate collection efforts have been taken. The Museum has established an allowance for uncollectible contributions receivable of \$23,000 as of June 30, 2022 and 2021.

Investments: Investments with readily determinable fair market values are reported at fair value in the statements of financial position. Investments whose fair market values are not readily determinable are recorded at cost. 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. Realized and unrealized gains and losses on investments for the year are reported in the statements of activities as part of net investment return.

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Property and Depreciation: Property is stated at cost or, if donated, at fair market value at the date of gift, less accumulated depreciation. It is the Museum's policy to capitalize all property acquisitions in excess of \$1,000 having useful lives of longer than one year. Depreciation is computed on a straight-line basis and is charged to expense over the estimated useful lives of the assets as follows:

Building and improvements (prior to the opening of the museum)	48 years
Building improvements	5-15 years
Exhibits	3-10 years
Equipment	3-5 years

Deferred Financing Costs: Deferred financing costs represented the costs incurred to obtain financing (see Note 10) which were being amortized on a straight-line basis over the term of the applicable debt obligation and charged to interest expense. Accounting principles generally accepted in the United States of America (GAAP) require that the effective rate yield method be used to amortize financing costs; however, the effect of the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Under GAAP, debt issuance costs related to the recognized debt liability are required to be presented in the statements of financial position as a direct reduction from the carrying amount of the debt liability. During the year ended June 30, 2021, the Museum paid the outstanding balance of the debt obligation in full. As a result, the Museum amortized the remaining unamortized deferred financing costs related to the debt obligation.

Net Assets: Net assets, revenue, support, and net investment return are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follow:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The Board of Directors has designated a portion of these net assets for a board designated endowment fund.

Net Assets with Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met with by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition: The Museum derives revenue primarily from admissions, memberships, other program income, rental income, contributions, grants, special events and net investment return. Special events and net investment income are recognized as revenue when earned. Unconditional contributions are recognized in the year the contributions are pledged and/or received. Conditional grants are earned and recognized as revenue without donor restrictions in proportion to the related expenditures incurred or when all conditions of the grant have been substantially met. Grants earned but not yet received are recorded as grants receivable. Grant proceeds received in advance and not yet earned are recorded as deferred revenue. Admissions and rental income are recognized when control of the promised good or service is transferred to a customer, in an amount that reflects the consideration to which the Museum expects to be entitled from customers, in exchange for those services. Revenue from annual memberships is recognized pro-rata over the membership period.

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Performance obligations are determined based on the nature of the services provided. The Museum primarily has two performance obligations, one satisfied over time related to memberships and one satisfied at a point in time related to admissions, birthday parties, outreach programs, evening and overnight programs, and rental income.

The Museum disaggregates its revenue from contracts with members and customers as follows:

	2022	2021
Performance obligations satisfied over time		
Memberships, family and corporate	\$ 345,114	\$ 136,744
Performance obligations satisfied at a point in time		
Admissions	1,499,814	386,133
Other program income	137,436	92,426
Rental income	8,288	-0-
	<u>\$ 1,990,652</u>	<u>\$ 615,303</u>

The Museum recognizes revenue on the statements of activities and contract assets on the statements of financial position only when services are performed. When the Museum has performed its obligations under the contracts, it has unconditional rights to the consideration recorded as contract assets and therefore classifies those billed and unbilled contract assets as accounts receivable.

Payments that the Museum receives from customers in advance of providing services represent contract liabilities. Such payments are primarily related to annual memberships as well as group and school admissions, facility rentals, birthday parties, outreach programs, and evening and overnight programs.

Contributions: Contributions received are recorded without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions.

Recognition of Donor Restrictions: All donor-restricted support is reported as an increase in net assets with donor restrictions. Upon expiration of a restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements of activities.

Gifts-in-Kind (Donated Services): Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, or would otherwise be purchased by the Museum. Donated services are recorded at their estimated fair market value on the date of receipt.

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

During the year ended June 30, 2022, gifts-in-kind (donated services) consisted of legal services of \$13,891, lobbying services of \$18,000, and rent of \$48,000. During the year ended June 30, 2021, gifts-in-kind (donated services) consisted of legal services of \$17,763, lobbying services of \$18,000 and rent of \$48,000. The legal and lobbying services, which were used in the Museum's management and general services, are reported within professional fees and the rent, which is used in the Museum's program services, is reported within occupancy, maintenance and supplies on the statements of activities.

The value of other donated services, which did not meet the criteria for recognition, could not be determined since it was not susceptible to objective measurement or valuation. The Museum estimates that various individuals volunteered approximately 1,200 and 500 hours for the years ended June 30, 2022 and 2021, respectively.

Advertising: Advertising costs are charged to operations when incurred. The Museum had no significant direct-response advertising.

Functional Allocation of Expenses: The costs of providing various programs and other support activities have been summarized on a functional basis in the statements of activities and by natural classification in the statements of functional expenses. Costs that can be identified with specific programs or support services are allocated directly. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated based on estimates such as time and effort or other criteria.

Income Taxes: The Museum is exempt from federal and state income taxes under IRC Section 501(c)(3). Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Museum's unrelated business income is generated from catering commissions for the years ended June 30, 2022 and 2021. There was no federal and state income tax expense for the years ended June 30, 2022 and 2021.

The Museum's federal and state tax returns are subject to examination by the IRS and state tax authorities, generally for a period of three years after the returns are filed.

Recently Issued Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* which will be effective for fiscal years beginning after December 15, 2021. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous guidance on leases. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has elected not to early adopt the standard and will assess the future impact on any leases in the financial statements.

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* which is effective for fiscal years beginning after June 15, 2021. This ASU requires that contributed nonfinancial assets be reported as a separate line item in the statement of activities, as well as disclose the disaggregation of the contributed nonfinancial assets recognized by type, whether they are monetized or utilized during the reporting period, and if utilized, the programs or other activities in which these contributed nonfinancial assets were used. Management has elected to adopt this standard and accordingly, all gifts-in-kind and donated services are separately reported with the required disclosures.

Reclassifications: Certain amounts previously reported in the 2021 financial statements have been reclassified to conform to the financial statement presentation for the year ended June 30, 2022.

Subsequent Events: In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through October 24, 2022, the date the financial statements were available to be issued. During the period from July 1, 2022 through October 24, 2022, the Museum did not have any recognizable subsequent events.

Note 2: Liquidity and Availability of Funds

The Museum has financial assets available within one year of the statements of financial position date to meet cash needs for general expenditures as follows:

	2022	2021
Cash and cash equivalents, unrestricted	\$ 968,134	\$ 1,016,557
Accounts receivable	230,259	531,140
Contributions receivable, current	131,623	167,722
Grants receivable	120,230	111,324
Less: Net assets with donor restrictions	-0-	(76,525)
Financial Assets Available for General Expenditure	<u>\$ 1,450,246</u>	<u>\$ 1,750,218</u>

The Museum manages its operating cash flow to ensure that adequate cash is available to meet obligations as they become due. Excess cash is invested in an interest-bearing reserve account. Some of its programs are funded by restricted contributions. As of June 30, 2022 and 2021, the Museum had cash from these contributions of \$175,946 and \$228,080 to fund these programs in the next year. As of June 30, 2021, the Museum also had a current receivable of \$76,525 to fund these programs. These amounts are not included in the total above as they are not available for general expenditures, but they are available to fund those specific programs which will take place.

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 3: Contributions Receivable

The Museum is the recipient of unconditional promises to give as of June 30, 2022 and 2021, which are generally expected to be received as follows:

	2022	2021
Receivable in less than one year	\$ 517,623	\$ 639,710
Receivable in one to five years	148,000	306,000
Total unconditional promises to give	665,623	945,710
Less: Discount to net present value (0.24% - 3.00% effective rate)	(1,240)	(4,682)
Less: Allowance for uncollectible promises to give	(23,000)	(23,000)
Contributions receivable, net	641,383	918,028
Long-term and restricted contributions receivable, net	509,760	750,306
Contributions receivable (current), net	<u>\$ 131,623</u>	<u>\$ 167,722</u>

Long-term and restricted contributions receivable at June 30, 2022 consists of \$469,760 for capital expenditures and \$40,000 for future year operations. Long-term and restricted contributions receivable at June 30, 2021 consists of \$735,306 for capital expenditures and \$15,000 for future year operations.

Note 4: Grants Receivable and Grant Revenue

During the years ended June 30, 2022 and 2021 the Museum recorded the following grant revenue:

	2022	2021
State of Maryland, capital expenditures	\$ 455,357	\$ 74,971
City of Baltimore, capital expenditures	-0-	50,000
Total grants for capital expenditures	455,357	124,971
U.S. Small Business Administration, forgiveness of Paycheck Protection Program loan	570,588	593,376
U.S. Treasury, employee retention credit	268,061	493,080
U.S. Small Business Administration, Shuttered Venue Operators grant	220,213	-0-
State of Maryland, free admission for Maryland school children	94,418	104,909
Baltimore County, general operating support	45,000	38,000
U.S. Institute of Museum and Library Services grants	40,205	-0-
State of Maryland, program grants	37,527	10,232
Howard County, general operating support	10,995	11,247
State of Maryland, Maryland 529 Plans sponsorship	10,000	-0-
Howard County, outreach program grant	3,647	5,000
State of Maryland, general operating support for COVID relief	-0-	500,000
Total grants for operating expenditures	1,300,654	1,755,844
	<u>\$ 1,756,011</u>	<u>\$ 1,880,815</u>

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 4: Grants Receivable and Grant Revenue (Continued)

Grants receivable as of June 30, 2022 and 2021 consisted of the following:

	2022	2021
State of Maryland, capital expenditures	\$ 77,886	\$ 74,971
State of Maryland, program grants	21,249	1,972
U.S. Institute of Museum and Library Services grants	11,655	-0-
State of Maryland, free admission for Maryland school children	9,440	10,492
City of Baltimore, capital expenditures	-0-	23,889
	<u>\$ 120,230</u>	<u>\$ 111,324</u>

The Museum has five grants from the State of Maryland for capital expenditures with remaining balances totaling \$4,719,672 as of June 30, 2022. These grants expire at various dates between June 1, 2026 and June 1, 2029.

The Museum entered into two loan agreements with Howard Bank through the Paycheck Protection Program (PPP). The terms provided that all or part of these loans could be forgiven, assuming certain qualified expenses, primarily payroll related expenses, were incurred during a specified period after the loan disbursement and assuming the Museum met certain other program stipulations. Any portion of the loans that did not qualify for forgiveness was subject to an interest rate of 1%.

The first PPP loan of \$587,900 was disbursed during the year ended June 30, 2020. The principal balance, along with accrued interest of \$5,476, was forgiven in full during the year ended June 30, 2021. The second PPP loan of \$566,753 was disbursed during the year ended June 30, 2021. The principal balance, along with accrued interest of \$3,835, was forgiven in full during the year ended June 30, 2022. The forgiveness of these loans has been included in grant revenue during the years ended June 30, 2022 and 2021, respectively.

In December 2020, the Museum became eligible for the employee retention credit. This is a refundable Federal payroll tax credit calculated based on a portion of wages as specified by the program parameters. Because the amount of the credit exceeded the payroll tax expense, it has been recorded as grant revenue. The Museum recorded grant revenue of \$268,061 and \$493,080 for the years ended June 30, 2022 and 2021, respectively. The balance due of \$186,111 and \$493,080 at June 30, 2022 and 2021, respectively, has been recorded in accounts receivable in the statements of financial position.

Note 5: Property

Property consisted of the following as of June 30, 2022 and 2021:

	2022	2021
Building and improvements	\$ 20,331,143	\$ 19,350,513
Exhibits	9,369,639	9,296,460
Equipment	1,090,218	995,389
Total Cost	30,791,000	29,642,362
Less: Accumulated depreciation	16,141,778	14,956,528
Property, net of accumulated depreciation	<u>\$ 14,649,222</u>	<u>\$ 14,685,834</u>

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 6: Cash and Cash Equivalents, Restricted

The Museum's restricted cash and cash equivalents as of June 30, 2022 and 2021 were restricted for the following purposes:

	2022	2021
Capital expenditures	\$ 1,204,053	\$ 1,326,033
Specific operating programs	180,039	210,595
Subsidized admissions	-0-	17,485
Cash and cash equivalents, restricted	<u>\$ 1,384,092</u>	<u>\$ 1,554,113</u>

Note 7: Investments

The Museum's investments as of June 30, 2022 and 2021 consisted of the following:

	2022		2021	
	Fair Value	Cost	Fair Value	Cost
Investments	Board Designated		Restricted	
Corporate stock index funds	\$ 462,146	\$ 245,079	\$ 510,599	\$ 194,088
Corporate bond funds	310,991	339,356	360,893	360,105
Money market funds	102,462	102,462	152,512	152,512
Bond market index funds	47,486	52,593	55,629	54,003
	<u>923,085</u>	<u>739,490</u>	<u>1,079,633</u>	<u>760,708</u>
Deferred Compensation Investments				
Money market funds	-0-	-0-	209,772	209,772
	<u>\$ 923,085</u>	<u>\$ 739,490</u>	<u>\$ 1,289,405</u>	<u>\$ 970,480</u>

Net investment return for the years ended June 30, 2022 and 2021 consisted of the following:

	2022	2021
Interest and dividends	\$ 23,534	\$ 25,325
Net gains (losses) on investments	(122,164)	206,810
Net investment return	<u>\$ (98,630)</u>	<u>\$ 232,135</u>

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
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Note 8: Fair Value Measurement

GAAP establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

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

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

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation techniques used by the Museum include the following:

Bond Market Index Funds, Corporate Bond Funds and Corporate Stock Index Funds:
Valued at last sales price reported on the active market in which the individual fund is traded.

Money Markets Funds: Valued at original cost plus interest earned, which equals fair value.

In determining the appropriate levels, the Museum performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

The table below presents the balances of investments as of June 30, 2022 measured at fair value on a recurring basis by level within the hierarchy.

	Total	Level 1	Level 2	Level 3
<u>Investments, Board Designated</u>				
Corporate stock index funds	\$ 462,146	\$ 462,146	\$ -0-	\$ -0-
Corporate bond funds	310,991	310,991	-0-	-0-
Money market funds	102,462	102,462	-0-	-0-
Bond market index funds	47,486	47,486	-0-	-0-
	<u>\$ 923,085</u>	<u>\$ 923,085</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 8: Fair Value Measurement (Continued)

The table below presents the balances of investments as of June 30, 2021 measured at fair value on a recurring basis by level within the hierarchy.

	Total	Level 1	Level 2	Level 3
<u>Investments, Board Designated</u>				
Corporate stock index funds	\$ 510,599	\$ 510,599	\$ -0-	\$ -0-
Corporate bond funds	360,893	360,893	-0-	-0-
Money market funds	152,512	152,512	-0-	-0-
Bond market index funds	55,629	55,629	-0-	-0-
	<u>1,079,633</u>	<u>1,079,633</u>	<u>-0-</u>	<u>-0-</u>
<u>Deferred Compensation Investments</u>				
Money market funds	209,772	209,772	-0-	-0-
Total Investments	\$ 1,289,405	\$ 1,289,405	\$ -0-	\$ -0-

Note 9: Capital Lease Obligations

The Museum leases computer equipment under non-cancelable lease agreements. The total cost of the equipment as of June 30, 2022 and 2021 was \$11,119 and \$32,065, respectively. Amortization of the cost of the leased equipment is included in depreciation. Accumulated depreciation of the leased equipment as of June 30, 2022 and 2021 was \$8,957 and \$23,585, respectively. As of June 30, 2022, future minimum lease payments under the capital lease obligations, summarized by fiscal year, are as follows:

Year ending June 30:	
2023	\$ 2,416
Less: Amount representing interest (7.35%)	<u>(59)</u>
Present value of future minimum lease payments (current)	<u>\$ 2,357</u>

THE BALTIMORE CHILDREN'S MUSEUM, INC.
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Note 10: Note Payable

During the year ended June 30, 2019, the Museum entered into a loan agreement with First National Bank (formerly Howard Bank) to provide bridge financing for renovation of its building and the addition of major new exhibits. (Those expenditures are being funded by contributions which have been pledged, and which are scheduled for payment through 2023.) The outstanding balance was paid in full during the year ended June 30, 2021. However, the loan agreement was amended on September 13, 2021, to allow the Museum to continue to draw on the loan through March 31, 2023 to finance the next phase of renovations. The Museum may draw on the loan as needed, subject to a maximum loan amount equal to the lesser of 90% of related outstanding contributions receivable or \$1,000,000. Principal payments are due as necessary to keep the maximum loan amount within the required parameters and may otherwise be made at the Museum's discretion as the related contribution payments are received. Any remaining principal balance is due in full on February 13, 2025. Interest is due monthly at LIBOR plus 2.05%. The interest rate was 2.125% at June 30, 2021. Interest expense incurred was \$1,687 during the year ended June 30, 2021. Borrowings on the loan are secured by all of the Museum's assets. Borrowings on the loan require that the Museum maintain a debt coverage ratio of not less than 1.10 to 1.0 and unrestricted liquidity of not less than \$500,000 as of June 30 of each year. The Museum was in compliance as of June 30, 2022 and 2021.

Note 11: Net Assets with Donor Restrictions

The Museum has various restricted funds, which may be fully expended but only for the purposes established by the respective donors. The Museum also had restricted endowment funds which are further discussed in Note 12. Net assets with donor restrictions as of June 30, 2022 were as follows:

	2021	Current Year Activity		2022
		Contributions and Net Investment Return	Released from Restrictions	
Subject to expenditure for a specified purpose:				
General operating support in future years	\$ 131,500	\$ 75,000	\$ (116,500)	\$ 90,000
Specific programs and exhibits	2,525,733	793,447	(1,203,075)	2,116,105
	<u>\$ 2,657,233</u>	<u>\$ 868,447</u>	<u>\$ (1,319,575)</u>	<u>\$ 2,206,105</u>

THE BALTIMORE CHILDREN'S MUSEUM, INC.
Notes to Financial Statements
June 30, 2022 and 2021

Note 11: Net Assets with Donor Restrictions (Continued)

Net assets with donor restrictions as of June 30, 2021 were as follows:

	2020	Prior Year Activity		2021
		Contributions and Net Investment Return Note A	Released from Restrictions	
Subject to expenditure for a specified purpose:				
General operating support in future years	\$ 100,000	\$ 84,000	\$ (52,500)	\$ 131,500
Specific programs and exhibits	1,269,200	1,525,185	(268,652)	2,525,733
	1,369,200	1,609,185	(321,152)	2,657,233
Subject to spending policy or appropriation:				
Endowment funds (principal)	25,000	(25,000)	-0-	-0-
	<u>\$ 1,394,200</u>	<u>\$ 1,584,185</u>	<u>\$ (321,152)</u>	<u>\$ 2,657,233</u>

Note A: \$25,000 was transferred from endowment funds to specific programs and exhibits based on the donor's directive.

Note 12: Endowment Net Assets

The Board of Directors has designated certain funds as a board designated endowment. Since this is an internal designation, the funds are classified as net assets without donor restrictions. Income from this endowment fund is available to be used for the purposes and mission of the Museum at the discretion of the Board of Directors.

The Museum previously held a donor restricted endowment fund. Income from that fund was available to be used for the purposes and mission of the Museum. During the year ended June 30, 2021, the donor of that endowment fund released the endowment restriction and instead restricted it for a specific program, which has been included in the expendable portion of the net assets with donor restriction table in Note 11 above.

The FASB issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Maryland has enacted UPMIFA. This guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Investment Return Objectives, Risk Parameters and Strategies

The Museum has adopted investment and spending policies for the board designated endowment assets that attempt to provide a predictable stream of funding for the purposes and mission of the Museum to be provided by the board designated endowment fund while also maintaining the purchasing power of the board designated endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds any annual distributions with acceptable levels of risk. Actual returns in any given year may vary. Investment risk is measured in terms of the total board designated endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

THE BALTIMORE CHILDREN'S MUSEUM, INC.
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Note 12: Endowment Net Assets (Continued)

Spending Policy

The Museum's objective is to maintain the purchasing power of the board designated endowment assets as well as to provide additional real growth through additional funding and investment return. In response to the Museum's needs during the COVID-19 pandemic, in May 2020 the Museum adopted a temporary policy to allow spending at the discretion of the Board of Directors. In February 2022, the Museum established a new policy to permit a standard annual withdrawal at an amount up to 5% of the average monthly balance for the previous three years. In addition, the new policy permits the Executive Committee of the Board of Directors to authorize additional withdrawals if necessary to support current operations.

Endowment net asset composition by type of fund as of June 30, 2022 and 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total Endowment Net Assets
		Temporary in Nature	Permanent in Nature	
June 30, 2022				
Board designated endowment fund	\$ 923,085	\$ -0-	\$ -0-	\$ 923,085
June 30, 2021				
Board designated endowment fund	\$ 1,079,633	\$ -0-	\$ -0-	\$ 1,079,633

Changes in endowment net assets during the years ended June 30, 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total Endowment Net Assets
		Temporary in Nature	Permanent in Nature	
Endowment net assets, June 30, 2020	\$ 979,342	\$ -0-	\$ 25,000	\$ 1,004,342
Contributions	-0-	-0-	-0-	-0-
Net investment return	200,291	-0-	-0-	200,291
Amounts appropriated for expenditure	(100,000)	-0-	-0-	(100,000)
Released from endowment and transferred to programs by donor	-0-	-0-	(25,000)	(25,000)
Endowment net assets, June 30, 2021	1,079,633	-0-	-0-	1,079,633
Contributions	-0-	-0-	-0-	-0-
Net investment return	(105,951)	-0-	-0-	(105,951)
Amounts appropriated for expenditure	(50,597)	-0-	-0-	(50,597)
Endowment net assets, June 30, 2022	\$ 923,085	\$ -0-	\$ -0-	\$ 923,085

THE BALTIMORE CHILDREN'S MUSEUM, INC.
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Note 13: Commitments

Property Lease: The Museum leases its land and building from the City under a Land Disposition and Lease Agreement dated April 1, 1998. The building lease has a term of 49 years, expiring on March 31, 2047, and can be renewed for two additional terms of 25 years each. The lease requires an annual lease payment of \$1. The Museum recognized this lease as a capital lease and recorded the cost of the leased property as part of its building and improvements. Since the present value of the net minimum lease payments on the lease is immaterial to the financial statements as a whole, the obligation under this capital lease has not been recorded. The cost of the leased property is \$2,400,000 and the accumulated depreciation was \$1,182,659 and \$1,132,112 as of June 30, 2022 and 2021, respectively.

Equipment Leases: The Museum leases office equipment under non-cancellable operating lease agreements that expire at various times during the period February 2023 through May 2024. Total rent expense for these leases was \$39,256 and \$39,821 for the years ended June 30, 2022 and 2021, respectively. The minimum annual lease payments for each of the fiscal years subsequent to June 30, 2022 are as follows:

Year ending June 30:	
2023	\$ 23,058
2024	<u>1,513</u>
	<u>\$ 24,571</u>

Contracts: The Museum entered into five contracts for construction management, architectural services, engineering, and exhibit design and construction which will be funded by capital grants (see Note 3) and capital contributions. The total amount of these contracts is approximately \$425,000. As of June 30, 2022, the Museum has incurred costs under these contracts of approximately \$325,000.

Note 14: Retirement Plans

Defined Contribution Retirement Plan: The Museum maintains a retirement plan under IRC Section 401(k) for its employees with at least six months of service. Under the terms of the plan, participating employees may elect to contribute pre-tax dollars up to the maximum limit established by the IRS for each calendar year. Through December 31, 2020, the plan required an employer matching contribution equal to 100% of the first 4% of salary contributed by an employee based on the calendar year. Effective January 1, 2021, employer matching contributions are discretionary and will be determined annually following the end of each calendar year. The total expense for matching contributions was \$54,468 and \$26,552 for the years ended June 30, 2022 and 2021, respectively.

Deferred Compensation Plan: The Museum maintained a deferred compensation plan under IRC Section 457(b) for the benefit of certain key executives. Under the terms of the plan, participating employees could elect to defer a portion of their compensation on a pre-tax basis into the plan, not to exceed the maximum salary deferral amount allowable under the applicable provisions of the IRC. The Museum could make discretionary contributions to the plan for each participating employee. The Museum made no discretionary contributions to the plan during the years ended June 30, 2022 and 2021. During the year ended June 30, 2022, the plan's sole participant retired and took a full distribution of her account balance. Subsequent to year end, the plan was terminated effective September 30, 2022. The Museum had maintained an investment account to fund the deferred compensation plan which was classified as deferred compensation investments on the statements of financial position. The investment account had a balance of \$-0- and \$209,772 as of June 30, 2022 and 2021, respectively.

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Note 15: Related Party Transactions

Professional Fees: A member of the Board is a partner in a law firm which the Museum has engaged as its legal counsel. The firm provided pro bono services valued at \$13,891 and \$17,763 in the years ended June 30, 2022 and 2021, respectively. Another member of the Board was engaged to provide lobbying services for the Museum. He provided pro bono services valued at \$18,000 in each of the years ended June 30, 2022 and 2021.

Employee Benefit Plans: A member of the Board is the president of the company which serves as a broker and advisor for certain of the Museum's employee benefit plans. The Museum does not compensate this company; however, the company is compensated by certain plan providers of the Museum.

Note 16: Self-Insurance Program - Unemployment Compensation Plan

The Museum has elected to maintain a self-funded unemployment compensation plan as a reimbursable employer as defined by the Department of Labor, Licensing and Regulation of the State of Maryland (the Department), whereby it pays qualified claims directly to the Department in lieu of submitting quarterly unemployment taxes. In order to be eligible for self-funding, the Department requires that funds be held as collateral in the event that the Museum would fail to pay its claims. As of June 30, 2022 and 2021, the Department required collateral of \$41,243 and \$41,572, respectively. The Museum has satisfied that requirement with a surety bond in the same amount.

Note 17: Certain Significant Risks and Uncertainties

Cash and Cash Equivalents: The Museum maintains its cash balances in a single financial institution and its total cash balance may exceed federally insured limits. The Museum has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

Investment Risk: The Museum's investment portfolio includes bond market index funds, corporate bond funds, corporate stock index funds, and money market funds. The Museum's investments that were held as part of the deferred compensation plan and classified as deferred compensation investments on the statements of financial position included money market funds. Such investments, excluding the money market funds, are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and amounts reported in the financial statements.

Note 18: National Health Emergency

In March 2020, the President of the United States declared a national emergency due to the COVID-19 viral pandemic. In compliance with state and local regulations, the Museum building was closed to the public in mid-March 2020, thereby limiting the Museum's programs to virtual offerings and reducing earned revenue to minimal amounts. The building re-opened to the public on a limited basis in October 2020 and added operating hours at various times through June 30, 2021. Attendance remained significantly below typical levels as a result of the pandemic throughout the year ended June 30, 2021, and for much of the year ended June 30, 2022. The ultimate ongoing impact on the operation and the financial status of the Museum cannot be determined at this time. However, the Museum has attempted to mitigate the effects of the pandemic by various efforts including significant relief funding, which is included in government grants and contributions on the statements of activities; two Paycheck Protection Program loans; and employee retention credits.

