

THE HOWARD COUNTY ARTS COUNCIL, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2023 AND 2022**

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities, Year Ended June 30, 2023	4
Statement of Activities, Year Ended June 30, 2022	5
Statement of Functional Expenses, Year Ended June 30, 2023	6
Statement of Functional Expenses, Year Ended June 30, 2022	7
Statements of Cash Flows	8
Notes to the Financial Statements	9 - 22



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Independent Auditor's Report

To the Board of Directors of
The Howard County Arts Council, Inc.
Ellicott City, MD

Opinion

We have audited the accompanying financial statements of The Howard County Arts Council, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 Howard County Arts Council, Inc. as of June 30, 2023 and 2022, 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 Howard County Arts Council, 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 Howard County Arts Council, 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 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 The Howard County Arts Council, 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 Howard County Arts Council, 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.



Columbia, MD
November 28, 2023

THE HOWARD COUNTY ARTS COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	2023	2022
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 613,542	\$ 471,798
Cash and cash equivalents - board designated	35,919	35,921
Total cash and cash equivalents	649,461	507,719
Pledges receivable	7,500	15,000
Certificates of deposit	22,730	22,725
Prepaid expenses	10,311	9,257
Total Current Assets	690,002	554,701
OTHER ASSETS		
Property and equipment, net	44,340	31,281
Investments - board designated reserve fund	1,022,199	613,520
Interest in assets held by the Community Foundation of Howard County	173,171	156,448
Total Other Assets	1,239,710	801,249
TOTAL ASSETS	\$ 1,929,712	\$ 1,355,950
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 71	\$ 56
Accrued expenses	29,345	43,021
Deferred revenue	111,312	103,945
Total Current Liabilities	140,728	147,022
OTHER LIABILITIES		
Security deposits	5,424	5,827
Total Other Liabilities	5,424	5,827
Total Liabilities	146,152	152,849
NET ASSETS		
Without Donor Restrictions:		
Undesignated	492,533	326,070
Board designated	1,058,118	649,441
Total Without Donor Restrictions	1,550,651	975,511
With donor restrictions	232,909	227,590
Total Net Assets	1,783,560	1,203,101
TOTAL LIABILITIES AND NET ASSETS	\$ 1,929,712	\$ 1,355,950

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

THE HOWARD COUNTY ARTS COUNCIL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Grants	\$ 893,221	\$ 716,281	\$ 1,609,502
Contributions	48,589	-	48,589
Special events	87,940	-	87,940
Camp registrations, rental income, and other	341,433	-	341,433
In-kind facilities	275,960	-	275,960
In-kind contributions	79,572	-	79,572
Employee retention tax credit	149,080	-	149,080
Interest income	7,703	-	7,703
Net assets released from restrictions	727,218	(727,218)	-
Total Revenue and Support	2,610,716	(10,937)	2,599,779
EXPENSES			
Program Services:			
Grant awards	704,162	-	704,162
Art center	632,214	-	632,214
Community services	225,962	-	225,962
Long Reach	32,860	-	32,860
Special projects	117,926	-	117,926
Total Program Services	1,713,124	-	1,713,124
Support Services:			
Fundraising	239,511	-	239,511
Management and general	84,063	-	84,063
Total Support Services	323,574	-	323,574
Total Expenses	2,036,698	-	2,036,698
CHANGE IN NET ASSETS FROM OPERATIONS	574,018	(10,937)	563,081
OTHER CHANGES			
Net appreciation in fair value of investments	1,122	-	1,122
Gain on assets held by the Community Foundation of Howard County, net	-	16,256	16,256
Total Other Changes	1,122	16,256	17,378
CHANGE IN NET ASSETS	575,140	5,319	580,459
NET ASSETS, beginning of year	975,511	227,590	1,203,101
NET ASSETS, end of year	\$ 1,550,651	\$ 232,909	\$ 1,783,560

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

THE HOWARD COUNTY ARTS COUNCIL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Grants	\$ 446,989	\$ 834,949	\$ 1,281,938
Contributions	37,021	-	37,021
Special events	62,679	-	62,679
Camp registrations, rental income, and other	251,066	-	251,066
In-kind facilities	230,504	-	230,504
Interest income	4,489	-	4,489
Forgiveness of PPP loan	66,500	-	66,500
Other income	1,513	-	1,513
Net assets released from restrictions	817,477	(817,477)	-
Total Revenue and Support	<u>1,918,238</u>	<u>17,472</u>	<u>1,935,710</u>
EXPENSES			
Program Services:			
Grant awards	675,177	-	675,177
Art center	581,034	-	581,034
Community services	187,427	-	187,427
Long Reach	162,498	-	162,498
Special projects	101,043	-	101,043
Total Program Services	<u>1,707,179</u>	<u>-</u>	<u>1,707,179</u>
Support Services:			
Fundraising	124,420	-	124,420
Management and general	71,489	-	71,489
Total Support Services	<u>195,909</u>	<u>-</u>	<u>195,909</u>
Total Expenses	<u>1,903,088</u>	<u>-</u>	<u>1,903,088</u>
CHANGE IN NET ASSETS FROM OPERATIONS	15,150	17,472	32,622
OTHER CHANGES			
Net depreciation in fair value of investments	(12,617)	-	(12,617)
Loss on assets held by the Community Foundation of Howard County, net	-	(22,012)	(22,012)
Total Other Changes	<u>(12,617)</u>	<u>(22,012)</u>	<u>(34,629)</u>
CHANGE IN NET ASSETS	2,533	(4,540)	(2,007)
NET ASSETS, beginning of year	<u>972,978</u>	<u>232,130</u>	<u>1,205,108</u>
NET ASSETS, end of year	<u>\$ 975,511</u>	<u>\$ 227,590</u>	<u>\$ 1,203,101</u>

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

THE HOWARD COUNTY ARTS COUNCIL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	PROGRAM SERVICES					SUPPORT SERVICES				
	Grant Awards	Art Center	Community Services	Long Reach	Special Projects	Total Program Services	Fundraising	Management and General	Total Support Services	Total Expenses
Personnel Costs:										
Salaries	\$ 31,840	\$ 275,948	\$ 95,520	\$ 5,307	\$ 26,533	\$ 435,148	\$ 68,987	\$ 26,533	\$ 95,520	\$ 530,668
Payroll taxes	2,670	23,143	8,011	445	2,225	36,494	5,786	2,225	8,011	44,505
Employee benefits	3,507	30,390	10,520	584	2,922	47,923	7,597	2,922	10,519	58,442
Employee retirement plan	551	4,779	1,654	92	460	7,536	1,195	460	1,655	9,191
Subtotal Personnel Costs	38,568	334,260	115,705	6,428	32,140	527,101	83,565	32,140	115,705	642,806
Accounting	-	-	-	-	-	-	-	33,146	33,146	33,146
Artist and juror fees	1,949	24,030	-	-	26,139	52,118	5,446	-	5,446	57,564
Bank and credit card fees	721	6,251	2,164	120	601	9,857	1,563	601	2,164	12,021
Contract services	6,420	22,518	8,736	16,423	767	54,864	13,114	767	13,881	68,745
Donated goods and supplies	-	-	-	-	-	-	69,578	-	69,578	69,578
Depreciation and amortization	503	4,362	1,509	84	419	6,877	1,090	419	1,509	8,386
Dues, meetings and travel	691	6,908	3,738	423	576	12,336	1,564	565	2,129	14,465
Equipment	434	3,762	1,302	72	362	5,932	941	362	1,303	7,235
Facilities - in-kind	16,558	143,499	49,673	2,760	13,798	226,288	35,875	13,797	49,672	275,960
Faculty services	-	36,195	-	-	-	36,195	-	-	-	36,195
Grants disbursed	635,599	-	30,000	-	36,100	701,699	5,000	-	5,000	706,699
Insurance	414	3,585	1,240	69	345	5,653	896	345	1,241	6,894
Marketing and advertising	-	-	-	4,688	-	4,688	-	-	-	4,688
Miscellaneous	2	20	7	-	2	31	20	2	22	53
Model fees	-	2,520	-	-	-	2,520	-	-	-	2,520
Office supplies and expense	1,311	20,041	3,933	1,567	1,300	28,152	8,132	1,093	9,225	37,377
Postage and delivery	176	6,041	1,307	29	186	7,739	3,926	147	4,073	11,812
Printing and copying	13	11,264	4,239	2	4,522	20,040	7,037	10	7,047	27,087
Professional services - in-kind	600	5,196	1,799	100	500	8,195	1,299	500	1,799	9,994
Telephone	203	1,762	610	95	169	2,839	465	169	634	3,473
TOTAL EXPENSES	<u>\$ 704,162</u>	<u>\$ 632,214</u>	<u>\$ 225,962</u>	<u>\$ 32,860</u>	<u>\$ 117,926</u>	<u>\$ 1,713,124</u>	<u>\$ 239,511</u>	<u>\$ 84,063</u>	<u>\$ 323,574</u>	<u>\$ 2,036,698</u>

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

THE HOWARD COUNTY ARTS COUNCIL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	PROGRAM SERVICES					Total Program Services	SUPPORT SERVICES			Total Expenses
	Grant Awards	Art Center	Community Services	Long Reach	Special Projects		Fundraising	Management and General	Total Support Services	
Personnel Costs:										
Salaries	\$ 29,681	\$ 257,235	\$ 89,043	\$ 37,633	\$ 24,734	\$ 438,326	\$ 31,329	\$ 24,734	\$ 56,063	\$ 494,389
Payroll taxes	2,335	20,233	7,004	836	1,946	32,354	5,058	1,945	7,003	39,357
Employee benefits	3,001	26,007	9,003	500	2,501	41,012	6,502	2,500	9,002	50,014
Employee retirement plan	438	3,796	1,314	73	365	5,986	949	365	1,314	7,300
Subtotal Personnel Costs	35,455	307,271	106,364	39,042	29,546	517,678	43,838	29,544	73,382	591,060
Accounting	-	-	-	-	-	-	-	25,369	25,369	25,369
Artist and juror fees	-	34,984	2,200	55,852	14,200	107,236	10,500	-	10,500	117,736
Bank and credit card fees	745	6,460	2,236	124	621	10,186	1,615	622	2,237	12,423
Contract services	7,406	25,631	8,627	48,740	1,708	92,112	17,894	1,170	19,064	111,176
Depreciation and amortization	552	4,785	1,656	93	460	7,546	1,196	460	1,656	9,202
Dues, meetings and travel	704	7,334	2,111	198	586	10,933	1,821	586	2,407	13,340
Equipment	365	3,164	1,095	61	304	4,989	791	304	1,095	6,084
Facilities - in-kind	13,830	119,862	41,491	2,305	11,525	189,013	29,966	11,525	41,491	230,504
Faculty services	-	29,600	-	-	-	29,600	-	-	-	29,600
Grants disbursed	614,003	-	10,250	-	36,188	660,441	5,000	-	5,000	665,441
Insurance	389	3,371	1,167	215	324	5,466	843	324	1,167	6,633
Marketing and advertising	-	-	-	5,575	-	5,575	-	-	-	5,575
Miscellaneous	-	-	-	-	-	-	-	144	144	144
Model fees	-	4,220	-	-	-	4,220	-	-	-	4,220
Office supplies and expense	1,015	15,370	3,045	5,066	963	25,459	3,324	850	4,174	29,633
Postage and delivery	462	6,138	1,723	1,530	385	10,238	2,834	385	3,219	13,457
Printing and copying	105	11,579	5,024	3,673	4,111	24,492	4,482	85	4,567	29,059
Telephone	146	1,265	438	24	122	1,995	316	121	437	2,432
TOTAL EXPENSES	\$ 675,177	\$ 581,034	\$ 187,427	\$ 162,498	\$ 101,043	\$ 1,707,179	\$ 124,420	\$ 71,489	\$ 195,909	\$ 1,903,088

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

THE HOWARD COUNTY ARTS COUNCIL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 580,459	\$ (2,007)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,386	9,202
Loss on assets restricted for long-term use	(16,256)	22,012
Forgiveness of PPP loan	-	(66,500)
Net (appreciation) depreciation in fair value of investments	(1,122)	12,617
Changes in operating assets and liabilities:		
Decrease (increase) in assets		
Pledges receivable	7,500	(7,500)
Certificates of deposit	(5)	(5)
Prepaid expenses	(1,054)	6,657
Interest in assets held by the Community Foundation of Howard Count	(16,723)	21,877
Increase (decrease) in liabilities		
Accounts payable	15	(76)
Accrued expenses	(13,676)	10,041
Deferred revenue	7,367	46,723
Security deposits	(403)	73
Net Cash Provided by Operating Activities	554,488	53,114
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(21,445)	(16,560)
Purchases of investments	(407,557)	(170,426)
Net Cash Used for Investing Activities	(429,002)	(186,986)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loss on assets restricted for long-term use	16,256	(22,012)
Net Cash Used for Financing Activities	16,256	(22,012)
NET CHANGE IN CASH AND CASH EQUIVALENTS	141,742	(155,884)
CASH AND CASH EQUIVALENTS, beginning of year	507,719	663,603
CASH AND CASH EQUIVALENTS, end of year	\$ 649,461	\$ 507,719

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

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE A – NATURE OF ORGANIZATION AND PROGRAM DESCRIPTION

Established in 1981 as a not-for-profit corporation, The Howard County Arts Council, Inc. (the “Arts Council”) was formed by a resolution of the County Council of Howard County, Maryland, to foster the arts and cultural development in the Howard County community. As the county’s designated arts council, it is authorized to administer state and county public funds by awarding grants to qualifying organizations that promote the arts, art education, culture and providing programs that engage the public in the arts.

The Arts Council provides the following program services:

Grant Awards - To advance and support the arts, the Arts Council administers the following grant programs: Community Arts Development, Artists-in-Education, Baltimore City Arts and Cultural Organizations, Creative Howard, Organizational Development, Outreach Howard, and the Jim Rouse Theatre Subsidy Program. Additional grant programs are piloted and activated from time to time as needed. A volunteer Artistic Review Panel is charged with evaluating all grant applications received from eligible organizations. The Board of Directors votes on the panel’s recommendations and has final approval of the grant awards.

Art Center - To encourage an active and supportive relationship between artists and the public, the Arts Council manages a 32,000 square feet multi-purpose arts center, which provides affordable studio and meeting space to artists, a black box theatre, and a dance studio for performances and rehearsals, classrooms for arts education, and two exhibit spaces for the display of various forms of visual art work.

Community Services - To foster and promote the arts, the Arts Council maintains a website that promotes upcoming programs and performances, develops partnerships to advance the arts, publishes a quarterly newsletter, maintains an active social media presence and online calendar of art events in the county, offers awards and scholarships, and provides various resources, technical assistance, advice and guidance on artistic development and art education.

Long Reach – In January 2020, the Arts Council was invited by the Howard County Government to develop and manage 16 individual artist studios at the Long Reach Village Center as part of their Long Reach Rising revitalization effort. In June 2022, the Arts Council held a one-day, free family arts festival, ARTreach 2022, as part of this effort. Over 2,000 community members gathered at Long Reach Village Center for the ARTreach Festival on June 4, 2022. The festival featured six different bands encompassing artists from the United States, Latin America, Mali, and Togo. Children and adults got to try their hand at a variety of art activities including tie-dye, jewelry, etc. Village center businesses and studio artists opened their doors and offered activities, giveaways, tours and more throughout the day. ARTreach featured music and free hands-on or artist-led activities led by 117 visual and performing artists.

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE A – NATURE OF ORGANIZATION AND PROGRAM DESCRIPTION –
continued

Special Projects - To ensure that the arts are accessible to all citizens, the Arts Council develops programs that reach out to underserved or new audiences. These programs may be ongoing or one-time pilot projects.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Arts Council have been prepared using the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned, and expenses and related liabilities are recognized as the obligations are incurred.

Financial Statement Presentation

Financial statement presentation follows Financial Accounting Standard Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958, *Not-for-Profit Entities*. In accordance with Topic 958, net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Arts Council and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets not subject to donor-imposed restrictions or stipulations.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the Arts Council and/or the passage of time, or that must be maintained in perpetuity by the Arts Council. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as support without donor restrictions.

Cash and Cash Equivalents

The Arts Council considers money market funds and all highly liquid investments with original maturities of three months or less to be cash equivalents. The Arts Council maintains its cash and cash equivalents balances in bank deposit accounts, which are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. At times, the accounts may exceed this limit. However, the Arts Council believes it is not exposed to any significant credit risk on cash and cash equivalents.

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Pledges Receivable

Pledges receivable are stated at the amount management expects to collect from balances outstanding at year end. Throughout the year, management determines if an allowance for doubtful accounts is necessary based upon a review of outstanding receivables, historical collection of information, and existing economic conditions. Accounts deemed uncollectible are charged off based on specific circumstances of the parties involved. Management expects to collect all outstanding receivables. Therefore, no allowance for doubtful accounts was established as of June 30, 2023 and 2022.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value as of the date of donation. The Arts Council capitalizes all property and equipment with a cost basis greater than \$500 and a useful life greater than one year. Expenditures, which extend the useful life of an asset are capitalized, while repairs and maintenance are expensed. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	10 – 20 years
Furniture, fixtures and equipment	5 – 7 years
Website	2 – 5 years

Investments

Investments are accounted for at fair value and consist of money market funds and certificates of deposit, which are maintained in an investment brokerage account. The fair value of certificates of deposit held in brokerage accounts is based on their quoted market price, and is provided by the Arts Council’s investment fund manager. Interest and dividends are recognized as earned. Net appreciation and depreciation in the fair value of investments are recognized on the statements of activities in the period in which such changes occur.

Deferred Revenue

Deferred revenue consists of unearned registration fees received in advance for participation in the summer camp programs held by the Arts Council. As of the beginning of June 30, 2022, deferred revenue totaled \$57,222.

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition

Grants and Contributions

The Arts Council recognizes grants and contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions received with donor stipulations are recorded as contributions with donor restrictions based on the donor's intent. Unless otherwise stated by the donor, individual donations are recorded as contributions without donor restrictions.

In addition, the Arts Council receives funding from state and local government agencies, which is considered a conditional contribution. These grants are subject to audit by the grantor agencies, which could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. Any amounts received prior to incurring qualifying expenditures would be reported as deferred revenue in the statements of financial position. Furthermore, any unexpended funds received from government agencies are subject to be returned to the funding authority, unless the funding authority allows the Arts Council to retain such excess. For the years ended June 30, 2023 and 2022, there were no unexpended funds due back to granting authorities.

Program Services

Program services largely represent camp registrations and rental income, and is recognized as revenue in the period in which the related activity occurs. Camp registration fees and rental income collected in advance are recorded as deferred revenue.

Employee Retention Tax Credit

As part of the Coronavirus Aid, Relief, and Economic Security Act, during fiscal year 2023, the Arts Council received an Employee Retention Tax Credit (“ERTC”), which is a refundable tax credit against certain employment taxes that are equal to 50% of the qualified wages that an eligible employer pays to its employees. The ERTC payment received from the Internal Revenue Service totaled \$149,080, and was recognized as revenue on the statement of activities.

In-kind Facilities

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Arts Council. Donated services that do not meet the above criteria are not recognized

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

In-kind Facilities – continued

The Arts Council receives in-kind facilities from the Howard County government, which is reported as in-kind facilities on the statements of activities and functional expenses in the period in which such facilities are used. The estimated fair rental value of donated facilities is based on an estimated market rental rate, and the allocated utilities, facilities, and maintenance costs determined by Howard County.

Agency Transactions

The Arts Council receives grants and contributions from government and private sources for purposes of furthering the Arts Council’s stated mission: to enrich and serve the Howard County community by fostering the arts, artists and arts organizations. Funds received and distributed by the Arts Council for purposes for which it acts as an agent, trustee or intermediary for resource providers are not included in the statements of activities in cases where the Arts Council does not have discretion or variance power over the distributions.

Method Used for Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or support function as management and general activities. Expenses of this nature are allocated on a reasonable basis that is consistently applied. Allocated expenses include depreciation and amortization, equipment, and any other applicable expenditures, which are based on salaries and related costs determined by estimates of time and effort expended.

Use of Estimates

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

Reclassification

For comparative purposes, certain amounts for the year ended June 30, 2022, have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported total net assets or change in the net assets.

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE C – INCOME TAXES

The Arts Council is a 501(c)(3) organization that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code. The Arts Council is, however, subject to tax on business income unrelated to the Arts Council's exempt purpose. No provision for income taxes is reflected in the accompanying financial statements for the years ended June 30, 2023 and 2022, since the Arts Council had no taxable income from unrelated business activities.

The Arts Council recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Arts Council does not believe its financial statements include any uncertain tax positions.

The Arts Council's information returns are subject to examination by the Internal Revenue Service for a period of three years from the date they were filed, except under certain circumstances. The Arts Council's information returns for the years ended June 30, 2020 through 2022, are open for a tax examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

NOTE D – AVAILABLE RESOURCES AND LIQUIDITY

The Arts Council strives to maintain liquid financial assets to cover 12 months of general expenditures. As part of the liquidity management plan, the Arts Council invests cash and cash equivalents in excess of daily requirements in short-term money market funds and certificates of deposit. The Arts Council has various sources of liquidity at its disposal including cash and cash equivalents, pledges receivable, certificates of deposit, and investments.

In addition, the Arts Council anticipates receiving additional grants and contributions that will sufficiently cover its operating expenses over 12-month period. Although the Arts Council does not intend to spend board designated funds other than those amounts appropriated for general expenditures, these funds could be made available through a board resolution, if necessary.

In determining the adequacy of liquidity sources to cover general operating expenditures over a 12-month period, the Arts Council considers all expenditures related to its program services, management and general, and fundraising activities, to be general operating expenditures.

As of June 30, 2023 and 2022, total financial assets held by the Arts Council and the amounts of those financial assets that could readily be made available within one year of the statements of financial position date to meet general expenditures were as follows:

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE D – AVAILABLE RESOURCES AND LIQUIDITY

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 649,461	\$ 507,719
Pledges receivable	7,500	15,000
Certificates of deposit	22,730	22,725
Investments - board designated reserve fund	1,022,199	613,520
Interest in assets held by the Community Foundation of Howard County	<u>173,171</u>	<u>156,448</u>
Total Financial Assets	1,875,061	1,315,412
Less: board designated reserves	(1,058,118)	(649,441)
Less: net assets with donor restrictions	(167,339)	(162,487)
Less: net assets encumbered by donor restrictions - perpetual in nature	<u>(65,570)</u>	<u>(65,103)</u>
Total Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 584,034</u>	<u>\$ 438,381</u>

NOTE E – PROPERTY AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 517,505	\$ 510,026
Furniture, fixtures and equipment	148,244	134,278
Website	<u>37,517</u>	<u>37,517</u>
	703,266	681,821
Less: accumulated depreciation and amortization	<u>(658,926)</u>	<u>(650,540)</u>
Property and Equipment, Net	<u>\$ 44,340</u>	<u>\$ 31,281</u>

Depreciation and amortization expense was \$8,386 and \$9,202 for the years ended June 30, 2023 and 2022, respectively.

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE F – INVESTMENTS AND FAIR VALUE MEASUREMENT

FASB ASC Topic 820, Fair Value Measurement, establishes a framework for measuring fair value. That 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). Level 1 of the fair value hierarchy under FASB ASC Topic 820 is described as inputs to the valuation methodology that are unadjusted quoted prices for identical assets or liabilities in active markets that the Arts Council has the ability to access.

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

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

- Level 1* Inputs are based on unadjusted quoted prices for identical assets traded in active markets that the Arts Council has the ability to access.

- Level 2* Inputs are based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data.

- Level 3* Inputs are unobservable and significant to the fair value measurement.

The following valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Arts Council's investments in money market funds are valued by carrying amount, which approximates fair value. The fair value of certificates of deposit and the interest in assets held by the Community Foundation of Howard County (the "Foundation") have been provided by the Arts Council's investment managers and the Foundation, respectively, and use a variety of pricing sources to determine market valuations, including indexes for each sector of the market.

The following tables set forth by level, within the fair value hierarchy, the Arts Council's investments at fair value on a recurring basis as of June 30, 2023 and 2022, respectively:

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE F – INVESTMENTS AND FAIR VALUE MEASUREMENT – continued

Assets at Fair Value as of June 30, 2023				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 333,107	\$ -	\$ -	\$ 333,107
Certificates of deposit	-	689,092	-	689,092
Interest in assets held by the Foundation	-	173,171	-	173,171
Total assets at fair value	\$ 333,107	\$ 862,263	\$ -	\$ 1,195,370

Asset at Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 248,802	-	-	\$ 248,802
Certificates of deposit	-	387,443	-	387,443
Interest in assets held by the Foundation	-	156,448	-	156,448
Total assets at fair value	\$ 248,802	\$ 543,891	\$ -	\$ 792,693

NOTE G – NET ASSETS

Board Designated Reserves

The Board of Directors set aside four separate bank accounts for the purpose of segregating designated funds for the re-grants program, Jim Rouse Theatre (JRT) Subsidies, JRT equipment fund, and the studio escrow.

To ensure the long-term viability of the Arts Council, an investment account was also established by the Board of Directors for working capital reserves to be utilized by the Arts Council in the case of an emergency.

As of June 30, 2023 and 2022, the aggregate total amount of the board designated cash and cash equivalents and investments were as follows:

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE G – NET ASSETS – continued

	2023	2022
Cash and cash equivalents	\$ 35,919	\$ 35,921
Investments	1,022,199	613,520
Total	\$ 1,058,118	\$ 649,441

Net Assets with Donor Restrictions

As of June 30, 2023 and 2022, net assets with donor restrictions were designated as follows:

	2023	2022
Various programs and projects	\$ 64,763	\$ 74,967
Strategic plan	-	7,500
Headstart program	7,500	7,500
Re-grants to other non-profit organizations and special projects	12,475	6,175
Donor designated endowment	65,570	65,103
Accumulated earnings in endowment fund	82,601	66,345
Total	\$ 232,909	\$ 227,590

NOTE H – AGENCY TRANSACTIONS

During the fiscal year 2023, the Arts Council was the subrecipient of two grants from Howard County, Maryland that required the Arts Council to regrant either a portion or all of the funds received to other entities specified in the grant agreements. Therefore, any funds received and distributed by the Arts Council for which it has no variance power were not included in the Arts Council’s statements of activities or functional expenses.

For the year ended June 30, 2023, a total of \$715,000 in regrants was awarded to designated non-profit organizations for which the Arts Council had no variance power.

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE I – IN-KIND DONATIONS

The Arts Council receives in-kind facilities from Howard County, which is a school building used for office space, art exhibits, dance studios, etc. For the years ended June 30, 2023 and 2022, the value of in-kind facilities totaled \$275,960 and \$230,504, respectively. The estimated fair value of the in-kind facilities is based on estimated market rental rate, determined by Howard County. The in-kind rent was allocated and used across the Arts Council’s program and support services. In addition, the Arts Council received in-kind donation for their celebration event as of June 30, 2023. This includes raffle tickets, media and culinary sponsors for a total amount of \$69,578. It also includes \$9,994 in-kind professional consulting services provided to the Arts Council for its strategic plan. The in-kind donations were utilized by and allocated between program and support services. There were no donor imposed restrictions.

NOTE J – INVESTMENT ENDOWMENT FUNDS

The Arts Council has assets held by the Community Foundation of Howard County (the “Foundation”) to be designated for the Howard County Arts Council Future for the Arts Fund endowment and is classified as net assets with donor restrictions in the accompanying statements of financial position.

The Community Foundation of Howard County (formerly, the Columbia Foundation) holds the Howard County Arts Council’s Future for the Arts Fund (the “Fund”), an endowment established in 1999 under an agreement between the Howard County Arts Council and the Community Foundation of Howard County (the “Foundation”).

Since the Arts Council has a beneficial interest in those funds, the transaction is considered reciprocal. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. Funds held by the Foundation consist of both donor designated endowment funds and board designated endowment funds.

Return Objectives and Spending Policy

The Foundation will hold the net assets with donor restriction endowment principal in perpetuity and invest the assets to provide income to the Arts Council. The Foundation has the authority to redirect the monies accumulated in the Fund should the Arts Council discontinue its business operations. Net assets with donor restricted contributions are recorded by both the Foundation and the Arts Council since contributions are received by the Arts Council and remitted to the Foundation. Per the agreement, the annual distributions available to the Arts Council will be 5% of the market value of the Fund’s assets as of December 31st of the preceding year, subject to specified conditions and limitations.

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE J – INVESTMENT ENDOWMENT FUNDS – continued

Return Objectives and Spending Policy – continued

The Arts Council has the option to reinvest these funds or place them in the operating account and are classified as net assets without donor restrictions due to time restrictions. Currently, these funds are being reinvested. The endowment assets are managed in accordance with the investment policy established by the Foundation.

The accumulated earnings on both the board designated endowment assets and the donor designated net assets with restrictions are reported as net assets without donor restrictions. These accumulated earnings are available only in accordance with the spending policy established with the Foundation.

The Arts Council’s investment endowment net assets consist of the following as of June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be retained by donor	\$ -	\$ 65,570	\$ 65,570
Portion subject to appropriation for expenditures	25,000	82,601	107,601
Balance as of June 30, 2023	<u>\$ 25,000</u>	<u>\$ 148,171</u>	<u>\$ 173,171</u>

Changes in the investment endowment net assets for the year ended June 30, 2023, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year, June 30, 2022	\$ 25,000	\$ 131,448	\$ 156,448
Contributions	-	467	467
Interest and dividends	-	2,306	2,306
Net appreciation in fair value of investments	-	13,950	13,950
End of year, June 30, 2023	<u>\$ 25,000</u>	<u>\$ 148,171</u>	<u>\$ 173,171</u>

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE J – INVESTMENT ENDOWMENT FUNDS – continued

The Arts Council’s investment endowment net assets consist of the following as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be retained by donor	\$ -	\$ 65,103	\$ 65,103
Portion subject to appropriation for expenditures	25,000	66,345	91,345
Balance as of June 30, 2022	<u>\$ 25,000</u>	<u>\$ 131,448</u>	<u>\$ 156,448</u>

Changes in the investment endowment net assets for the year ended June 30, 2022, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year, June 30, 2021	\$ 25,000	\$ 153,325	\$ 178,325
Contributions	-	135	135
Interest and dividends	-	2,564	2,564
Net depreciation in fair value of investments	-	(24,576)	(24,576)
End of year, June 30, 2022	<u>\$ 25,000</u>	<u>\$ 131,448</u>	<u>\$ 156,448</u>

Net assets without donor restrictions are reflected as board endowments and net assets with donor restrictions are reflected as accumulated earnings and appreciation in fair value on the above tables pertaining to the assets held by the Foundation. There were no underwater funds as of June 30, 2023 and 2022.

NOTE K –PPP LOAN

On February 8, 2021, the Arts Council secured a second loan in the amount of \$66,500 with PNC Bank (the “Lender”) under the Small Business Administration’s Paycheck Protection Program (“PPP”) that authorized forgivable loans to small businesses. This loan could be used to cover certain expenses during the COVID-19 crisis. The loan amounts would be forgiven as long as the loan proceeds were used to cover payroll costs, benefits, rent, and utility costs over a period specified in the loan document after the loan was made. The loan bore an interest of one percent and matured on February 8, 2026.

THE HOWARD COUNTY ARTS COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022
(continued)

NOTE K –PPP LOAN – continued

On September 30, 2021, the second PPP loan was forgiven in full, and therefore, recognized as revenue on the statement of activities for the year ended June 30, 2022.

NOTE L – SUBLEASES

As per the lease agreement established with the Howard County government, the Arts Council may sublease building space to artists and related organizations. Such space consists of studios, classrooms, a theatre, and meeting rooms, which are subleased to tenants under operating lease agreements with varying terms. For the years ended June 30, 2023 and 2022, rent received by the Arts Council under the subleases totaled \$148,094 and \$127,124, respectively.

NOTE M – RETIREMENT PLAN

The Arts Council established a retirement savings plan, which covers all eligible employees. Employees are permitted to contribute up to the maximum amount prescribed by law. The Arts Council is required to make dollar-for-dollar matching contributions of up to 3% of compensation for each employee making salary-reduction contributions under the SIMPLE Plan (Savings Incentive Match Plan for Employees). The Arts Council may, however, elect out of this requirement or reduce the contribution amount provided, within a reasonable time before the annual election period. For the years ended June 30, 2023 and 2022, the Arts Council's contributions to the SIMPLE Plan totaled \$9,191 and \$7,300, respectively.

NOTE N – SUBSEQUENT EVENTS

In preparing these financial statements, the Arts Council has evaluated events and transactions for potential recognition or disclosure through November 28, 2023, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further recognition or disclosure.