

BALTIMORE CLAYWORKS, INC.

**Financial Statements Together with
Report of Independent Public Accountants**

For the Years Ended December 31, 2021 and 2020



S B & COMPANY, LLC
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DECEMBER 31, 2021 AND 2020

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS

To the Board of Directors of
Baltimore Clayworks, Inc.

Opinion

We have audited the statements of financial position of Baltimore Clayworks, Inc. (Clayworks), as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Clayworks as of December 31, 2021 and 2020, 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 (GAAS). 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 Baltimore Clayworks, Inc. and to meet our 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 these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls 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 Clayworks' ability to continue as a going concern for one year after the date the financial statements are available to be issued.



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Auditor's Responsibility 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 GAAS 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 controls. 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 GAAS, 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 controls 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 Clayworks' internal controls. 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 Clayworks' ability to continue as a going concern one year after the date the financial statements are available to be issued.

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 controls-related matters that we identified during the audit.

Owings Mills, Maryland
November 1, 2022

SB & Company, LLC

BALTIMORE CLAYWORKS, INC.**Statements of Financial Position
As of December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 519,384	\$ 405,866
Investments	24,328	32,177
Accounts and grants receivable	33,057	64,369
Prepaid expenses and other assets	16,604	11,242
Property and equipment, net	2,350,917	2,384,040
Beneficial interest in assets held by a third party	38,101	35,465
Total Assets	<u>\$ 2,982,391</u>	<u>\$ 2,933,159</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 73,889	\$ 48,170
Deferred revenue	72,613	101,409
Notes payable - bank, net	635,646	656,246
Notes payable, related party	-	7,000
Total Liabilities	<u>782,148</u>	<u>812,825</u>
Net Assets		
Without donor restrictions	2,094,269	2,060,706
With donor restrictions	105,974	59,628
Total Net Assets	<u>2,200,243</u>	<u>2,120,334</u>
Total Liabilities and Net Assets	<u>\$ 2,982,391</u>	<u>\$ 2,933,159</u>

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

BALTIMORE CLAYWORKS, INC.**Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and Other Support		
Contributions, donations, and grants	\$ 437,714	\$ 455,627
Program and sales revenue	451,041	199,078
Federal grant - SBA PPP loan forgiveness	95,950	104,080
Gallery and exhibition sales	55,813	39,433
Special events, net of direct expenses of \$1,405 and \$2,243, respectively	24,516	2,360
Rental income and other	52,411	45,235
Investment income, net	3,197	1,563
In-kind revenue	4,800	4,007
Total Revenue	<u>1,125,442</u>	<u>851,383</u>
Net assets released from restrictions	1,591	4,143
Total Revenue and Other Support	<u>1,127,033</u>	<u>855,526</u>
Expenses		
Program	754,935	624,955
General and administrative	163,034	137,752
Fundraising	62,987	57,074
Total Expenses	<u>980,956</u>	<u>819,781</u>
Change in Net Assets Without Donor Restrictions Before Depreciation, Amortization and Interest	<u>146,077</u>	<u>35,745</u>
Depreciation and amortization	77,719	73,040
Interest	34,795	35,561
Total Depreciation, Amortization, and Interest	<u>112,514</u>	<u>108,601</u>
Change in Net Assets Without Donor Restrictions	<u>33,563</u>	<u>(72,856)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	43,756	5,806
Beneficial interest in endowment fund	4,181	1,405
Net assets released from restrictions	(1,591)	(4,143)
Change in Net Assets With Donor Restrictions	<u>46,346</u>	<u>3,068</u>
Changes in net assets	79,909	(69,788)
Net assets, beginning of year	<u>2,120,334</u>	<u>2,190,122</u>
Net Assets, End of Year	<u>\$ 2,200,243</u>	<u>\$ 2,120,334</u>

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

BALTIMORE CLAYWORKS, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2021, with Comparative 2020 Totals**

	2021			Total	2020 Totals
	Program	General & Administrative	Fundraising		
Salaries and related expenses	\$ 280,738	\$ 109,056	\$ 55,806	\$ 445,600	\$ 416,107
Benefits and taxes	67,329	7,488	60	74,877	87,658
Artist	97,356	400	1,897	99,653	39,392
Education	61,202	-	-	61,202	19,619
Utilities	49,846	1,420	-	51,266	39,075
Insurance	41,505	4,610	-	46,115	40,689
Technology	22,716	2,528	1,401	26,645	30,710
Art supplies	28,201	-	-	28,201	20,599
Consignment fees	27,043	-	-	27,043	19,784
Office supplies	21,385	606	606	22,597	14,725
Bank and credit card fees	18,617	231	749	19,597	10,356
Facilities	13,931	907	-	14,838	24,599
Consulting	-	13,250	-	13,250	3,000
Rental equipment	11,429	460	278	12,167	12,063
Professional fees	-	11,700	-	11,700	12,000
Marketing and advertising	-	6,725	747	7,472	7,486
Other expenses	6,968	3,177	1,030	11,175	13,179
Postage	5,048	280	281	5,609	4,287
Telephone	1,070	126	63	1,259	4,254
Dues and subscriptions	551	70	69	690	199
Total Before Depreciation, Amortization and Interest	754,935	163,034	62,987	980,956	819,781
Depreciation and amortization	57,677	11,931	8,111	77,719	73,040
Interest	31,316	3,479	-	34,795	35,561
Total	\$ 843,928	\$ 178,444	\$ 71,098	\$ 1,093,470	\$ 928,382

The accompanying notes are an integral part of this financial statement.

BALTIMORE CLAYWORKS, INC.**Statement of Functional Expenses
For the Year Ended December 31, 2020**

	Program	General & Administrative	Fundraising	Total
Salaries and related expenses	\$ 262,157	\$ 101,838	\$ 52,112	\$ 416,107
Benefits and taxes	78,822	8,766	70	87,658
Artist	38,484	158	750	39,392
Education	19,619	-	-	19,619
Consignment fees	19,784	-	-	19,784
Art supplies	20,599	-	-	20,599
Office supplies	13,935	395	395	14,725
Postage	3,858	214	215	4,287
Utilities	37,993	1,082	-	39,075
Telephone	3,616	425	213	4,254
Facilities	23,095	1,504	-	24,599
Rental equipment	11,331	456	276	12,063
Marketing and advertising	6,738	-	748	7,486
Consulting	-	3,000	-	3,000
Insurance	36,621	4,068	-	40,689
Dues and subscriptions	159	20	20	199
Travel	10,413	11	11	10,435
Technology	26,182	2,913	1,615	30,710
Professional fees	-	12,000	-	12,000
Bank and credit card fees	9,838	122	396	10,356
Other	1,711	780	253	2,744
Total Before Depreciation, Amortization and Interest	624,955	137,752	57,074	819,781
Depreciation and amortization	54,205	11,212	7,623	73,040
Interest	32,005	3,556	-	35,561
Total	\$ 711,165	\$ 152,520	\$ 64,697	\$ 928,382

The accompanying notes are an integral part of this financial statement.

BALTIMORE CLAYWORKS, INC.**Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 79,909	\$ (69,788)
Adjustments to reconcile changes in net assets to net cash flow from operating activities:		
Depreciation	76,298	71,619
Amortization of note payable - bank	1,421	1,421
Net realized/unrealized gain on investments	(6,839)	(5,678)
Effect of changes in non-cash operating assets and liabilities:		
Accounts and grants receivable, net	31,312	(44,801)
Prepaid expense and other assets	(5,362)	13,358
Accounts payable and accrued expenses	25,719	(21,266)
Deferred revenue	(28,796)	38,230
Net Cash from Operating Activities	<u>173,662</u>	<u>(16,905)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment, net	(43,175)	(9,388)
Proceeds from sale of investments	12,779	15,073
Purchase of investments	(727)	(11,485)
Net Cash Flows from Investing Activities	<u>(31,123)</u>	<u>(5,800)</u>
Cash Flows from Financing Activities		
Payments on notes payable - bank	(22,021)	(7,055)
Payments on notes payable, related party	(7,000)	(17,000)
Forgiveness on notes payable, related party	-	-
Net Cash from Financing Activities	<u>(29,021)</u>	<u>(24,055)</u>
Change in cash	113,518	(46,760)
Cash, beginning of year	405,866	452,626
Cash, End of Year	<u>\$ 519,384</u>	<u>\$ 405,866</u>
Supplemental Cash Flow Disclosure		
Cash paid for interest	<u>\$ 34,795</u>	<u>\$ 35,561</u>

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

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

1. BACKGROUND OF THE ORGANIZATION

Baltimore Clayworks, Inc. (Clayworks) is a not-for-profit ceramic art center located in Mt. Washington, a neighborhood in northwest Baltimore, Maryland. Founded in 1980, Clayworks offers classes, artists' spaces, exhibitions, and programs in the community. Its mission is to develop, sustain and promote an artist-centered community that provides outstanding educational, artistic, and collaborative programs in the ceramic arts.

To fulfill its mission, Clayworks provides affordable studio space, equipment, and professional opportunities that encourage participation by national and international ceramic artists who produce ceramic artwork of the highest quality. It offers hands-on studio classes in all aspects of pottery, clay sculpture, and ceramic processes for children and adults. Clayworks presents on and off-site exhibitions of the work of national and international ceramic artists, in solo and group format, curated by mid-career and emerging clay artists in the field. Clayworks is deeply committed to developing sensitively conceived and collaboratively designed programs with artists and community organizations that bring art experiences of authenticity and meaning into the lives of children and adults in disadvantaged neighborhoods in and around Baltimore City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of Clayworks are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

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

Cash

Clayworks maintains its cash in a bank deposit account, which, at times, may exceed Federally insured limits. The Federal Deposit Insurance Corporation (FDIC) guarantees accounts up to \$250,000 per depositor per institution. As of December 31, 2021 and 2020, Clayworks had \$269,284 and \$155,766, respectively, in excess of FDIC insured limits. Clayworks has not experienced any losses in their bank deposit account.

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement and Income Recognition

Accounting standards generally accepted in the United States of America establish 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).

The three levels of the fair value hierarchy under generally accepted accounting principles (GAAP) are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Clayworks has the ability to access.

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; and
- 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.

Financial instruments consist of investments, receivables, and payables. The carrying value of Clayworks' financial instruments approximates their respective fair values as of December 31, 2021 and 2020.

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts and Grants Receivable

Accounts and grants receivable represent accounts and grants from contracts and individuals that have not been collected as of year-end. Clayworks' estimate of an allowance for bad debt is based on historical collection experience and a review of the current status of specific accounts and grant receivables. Clayworks records an allowance for doubtful accounts equal to estimated losses that will be incurred in the collection of receivables. No allowance for doubtful accounts was recorded as of December 31, 2021 and 2020, as management deemed all accounts receivable to be fully collectible.

Property and Equipment

Property and equipment in excess of \$500 and having a useful life of at least one year are capitalized at cost. Donated property and equipment are capitalized at the estimated fair market value on the date received. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

Debt Issuance Costs

Debt issuance costs consist of costs associated with obtaining the note payable from Fulton Bank. The debt financing costs of \$45,248 are being amortized using the straight-line method over the term of the note, which approximates the effective interest rate method. The unamortized balance as of December 31, 2021 and 2020, was \$9,762 and \$11,183, respectively. These costs are shown and are reported net of notes payable in the accompanying statements of financial position.

Net Assets

Net assets without donor restrictions are assets and contributions that are not restricted by donors, or for which restrictions have expired.

Net assets with donor restrictions are those whose use by Clayworks has been limited by donors, primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as net assets without donor restrictions.

Net assets with donor restrictions also consist of contributions received from donors to be maintained by Clayworks in perpetuity.

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Support and Revenue

Clayworks recognizes contributions and grants when an unconditional promise to give is received. Conditional promises to give, with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions and grants received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor restricted support is reported as an increase in net assets with donor restrictions. Donations for which Clayworks may spend the interest earnings are recorded as net assets with donor restrictions to be held in perpetuity. However, it must maintain the principal.

Program revenue consists of tuition and registration fees. Tuition and registration fees are recognized in the fiscal year in which the related courses are taught. Tuition paid in advance is recorded as deferred revenue. Gallery and exhibition sales are recorded at the point of sale.

Gifts of cash and other assets are reported as revenue with restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets and in the statements of functional expenses. Accordingly, certain costs have been allocated among the program, general and administrative, and fundraising services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of Clayworks. Salaries are considered a representative measure of the organizational effort applied to joint objectives and serve as the basis for allocation of shared expenses.

Income Taxes

Clayworks is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and is recognized as such by the Internal Revenue Service.

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

The provisions included in accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. Clayworks performed an evaluation of uncertain tax positions as of December 31, 2021 and 2020, and determined that there were no matters that would require recognition in the financial statements, or which may have any effect on its tax-exempt status.

As of December 31, 2021, the statute of limitations for tax years 2018 through 2021 remain open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which Clayworks files tax returns. It is Clayworks' policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Liquidity and Availability of Resources

The following reflects Clayworks' financial assets as of December 31, 2021, reduced by amounts not available for general use within one year because of donor-imposed restrictions.

Cash	\$	519,384
Investments		24,328
Accounts and grants receivable		33,057
		<u>576,769</u>
Less: those unavailable for general expenditures within one year, due to:		
Net assets with donor restrictions		<u>64,429</u>
Financial assets available to meet cash needs for general expenses within one year	\$	<u>512,340</u>

Clayworks manages its liquidity following two guiding principles: operating within a prudent range of financial soundness and stability and maintaining access to adequate liquid assets to fund near-term operating needs.

Additionally, Clayworks has a line of credit in the amount of \$100,000. As of December 31, 2021, \$100,000 remained available.

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implemented Accounting Pronouncement

In September 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-13, *Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606)*. The recognition of revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Clayworks implemented ASU 2017-13 for the year ended December 31, 2021, and it did not have a material impact on the financial statements.

Recent Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard will require Clayworks to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases and Leases (Topic 842): Targeted Improvements*, which provides further clarity and transition options for adoption of FASB ASU No. 2016-02. These standards will be effective for periods beginning after December 15, 2021.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit organization to present contributed nonfinancial assets as a separate item in the statement of activities, apart from contributions of cash or other financial assets, and additional disclosures including qualitative information regarding the use of assets. This standard will be effective for periods beginning after June 15, 2022.

Management is evaluating the effects of these pronouncements on the financial statements and will implement these pronouncements by their effective dates.

Subsequent Events

Clayworks' management has evaluated the accompanying financial statements for subsequent events and transactions through November 1, 2022, the date these financial statements were available for issue, and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

3. INVESTMENTS

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used as of December 31, 2021.

Beneficial interest in perpetual trust held by a third party: This beneficial interest in perpetual trust held by a third party is maintained by the Baltimore Community Foundation (BCF), is comprised solely of BCF pooled investments, and is not managed by Clayworks. Investments are valued at the relative fair value of the underlying market value of investments.

Mutual funds: Valued at the closing price reported on the active market on which the investments are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Clayworks 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 following table presents investments at fair value as of December 31, 2021 and 2020:

	2021			
	Level 1	Level 2	Level 3	Total
BCF pool	\$ -	\$ -	\$ 38,101	\$ 38,101
Mutual funds	24,328	-	-	24,328
Total	\$ 24,328	\$ -	\$ 38,101	\$ 62,429

	2020			
	Level 1	Level 2	Level 3	Total
BCF pool	\$ -	\$ -	\$ 35,465	\$ 35,465
Mutual funds	32,177	-	-	32,177
Total	\$ 32,177	\$ -	\$ 35,465	\$ 67,642

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

3. INVESTMENTS (continued)

A summary of the investment activity for the years ended December 31, 2021 and 2020, was as follows:

	<u>2021</u>	<u>2020</u>
Net realized and unrealized gains	\$ 6,839	\$ 5,678
Investment income	727	633
Administrative fees	<u>(188)</u>	<u>(167)</u>
Total	<u>\$ 7,378</u>	<u>\$ 6,144</u>

4. PROPERTY AND EQUIPMENT

As of December 31, 2021 and 2020, property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>	<u>Useful Life</u>
Land	\$ 747,618	\$ 747,618	N/A
Buildings and improvements	2,711,746	2,676,071	40 years
Office equipment and furniture	106,349	106,349	5-10 years
Studio equipment	168,793	168,793	5-10 years
Website	<u>7,500</u>	<u>-</u>	3 years
	3,742,006	3,698,831	
Less: accumulated depreciation	<u>1,391,089</u>	<u>1,314,791</u>	
Property and Equipment, Net	<u>\$ 2,350,917</u>	<u>\$ 2,384,040</u>	

Depreciation expense for the years ended December 31, 2021 and 2020, was \$76,298 and \$71,619, respectively.

The State of Maryland (the State) has provided bond bill funding to Clayworks to help fund renovations and improvements to the buildings. These bond bills require Clayworks to notify the State of any plan to sell the property and the State may require repayment of the bond bill funding from the proceeds of the sale.

5. BENEFICIAL INTERESTS IN PERPETUAL TRUST HELD BY A THIRD PARTY

In 2005, a charitable foundation established an endowment fund within the Baltimore Community Foundation (Foundation) to support the activities of Clayworks. Under the terms of the agreement, the property of the endowment fund is an irrevocable gift to the Foundation and the assets of the fund will never be received by Clayworks. Under the terms of the agreement, Clayworks receives income distributions as determined by the Foundation's spending policy.

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

5. BENEFICIAL INTERESTS IN PERPETUAL TRUST HELD BY A THIRD PARTY (continued)

Clayworks will receive income distributions from this endowment fund until the Foundation's Board of Trustees decides the endowment fund purpose is obsolete, inconsistent with the charitable needs of the community or incapable of fulfillment.

The initial recognition and subsequent adjustments to the assets' carrying value are recognized as contribution revenue, and changes in value of the split-interest agreements are classified as support restricted in perpetuity. The endowment fund had a value of \$38,101 and \$35,465, as of December 31, 2021 and 2020, respectively.

6. NOTES PAYABLE

Mortgage

On September 5, 2018, Clayworks entered into a \$700,000 loan agreement with a financial institution to refinance its then existing note payable and line of credit via a 10-year term loan. Interest accrues at 5.22% per annum. The balance of the note payable as of December 31, 2021 and 2020, was \$645,408 and \$667,429, respectively. Interest expense was \$34,795 and \$35,561, for the years ended December 31, 2021 and 2020, respectively.

Unamortized debt issuance costs are presented net of principal on the accompanying statements of financial position.

	<u>2021</u>	<u>2020</u>
Principal amount	\$ 645,408	\$ 667,429
Less: unamortized debt issuance costs	<u>9,762</u>	<u>11,183</u>
Note payable, net of debt issuance costs	<u>\$ 635,646</u>	<u>\$ 656,246</u>

Future minimum payments as of December 31, 2021 for the note payable were as follows:

<u>For the Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 24,047
2023	25,351
2024	26,638
2025	28,170
2026	29,698
2027 and thereafter	501,742
Total	<u>\$ 635,646</u>

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

6. NOTES PAYABLE (continued)

During 2017, Clayworks entered into a non-interest-bearing promissory note totaling \$45,000. The loan was to be repaid in principal payments of \$10,000 in fiscal year 2018, \$15,000 in fiscal years 2019 and 2020, and the final payment of \$5,000 in fiscal year 2021. The balance outstanding as of December 31, 2020 was \$5,000. The note was paid in full during the year ended December 31, 2021.

Loan with Board of Directors

Loans from former members of the Board of Directors to Clayworks had a balance of \$2,000 as of December 31, 2020. The loans were paid in full during the year ended December 31, 2021. These loans are non-interest bearing and due upon demand. Interest was imputed using the interest rate of 5.22% consistent with Clayworks borrowing rate on its note payable from the bank.

Payroll Protection Program Loan

On April 28, 2020, Clayworks received a Paycheck Protection Program (PPP) loan in the amount of \$104,080. On February 7, 2021, Clayworks received a second PPP loan in the amount of \$95,950. The terms of these loans require the proceeds to be spent on eligible expenses, which are primarily payroll related costs. Part or all of the loans may be forgiven based on meeting certain conditions as set forth in the loan agreement. Any portion of the PPP loans that is not forgiven must be repaid over two years after a six-month deferral period at an interest rate of 1%.

The accounting for these funds were in accordance with the treatment of contributions under ASC 958. Under this model, the timing of recognition for a contribution received depends on whether the contribution is conditional or not. If conditional, the contribution is not recognized until the conditions are substantially met or explicitly waived.

As of December 31, 2021 and 2020, Clayworks recognized \$95,950 and \$104,080, respectively, as Federal grant revenue, as the PPP loans were fully forgiven.

BALTIMORE CLAYWORKS, INC.

Notes to the Financial Statements December 31, 2021 and 2020

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
General operations	\$ 40,000	\$ -
Beneficial interest - held by third party	38,101	35,465
Mary Nyburg Grant Fund	24,328	22,572
Videography	2,000	-
Scholarship Fund	-	1,591
Total	<u>\$ 104,429</u>	<u>\$ 59,628</u>

8. IN-KIND CONTRIBUTIONS

Various individuals and corporations have donated services to support Clayworks' programs. The donated services were recorded as contribution revenue based on their estimated fair values, which were determined based on the costs of the service provided by external parties.

For the years ended December 31, 2021 and 2020, there was approximately \$4,800 and \$4,000, respectively, of contributed services, which is reported in contributions, donations, and grants in the accompanying statements of activities and changes in net assets.

Many volunteers have made significant contributions of time to Clayworks' programs and supporting functions. These contributed services do not meet the criteria for recognition and, accordingly, are not recognized in the accompanying financial statements.

9. COMMITMENTS AND CONTINGENCIES

Clayworks entered into operating leases for copier equipment and an elevator contract with varying expirations through November 2025. Lease expense for the years ended December 31, 2021 and 2020, was \$6,862 and \$7,155, respectively.

10. RETIREMENT PLAN

Clayworks has a 403(b) defined contribution plan (the Plan) which covers substantially all eligible employees. Employer contributions are discretionary and determined annually with a maximum amount of \$500 per employee. Clayworks did not make employer contributions to the Plan during the years ended December 31, 2021 and 2020.