

**Ann Arbor Art Association**

**Financial Statements**

**August 31, 2016 (With Summarized Comparative  
Information for 2015)**

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## Independent Accountants' Review Report

To the Board of Directors  
Ann Arbor Art Association  
Ann Arbor, Michigan

We have reviewed the accompanying financial statements of Ann Arbor Art Association, which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

### Summarized Comparative Information

We previously compiled of Ann Arbor Art Association's 2015 financial statements and in our conclusion dated July 22, 2016, stated that based on our review, we were not aware of any material modifications that should be made to the 2015 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended August 31, 2015, for it to be consistent with the reviewed financial statements from which it has been derived.

*Yeo & Yeo, P.C.*

Ann Arbor, Michigan  
June 13, 2017

**Ann Arbor Art Association**  
**Statement of Financial Position**  
**August 31, 2016**  
**(With Summarized Comparative Information for 2015)**

	2016	2015
<b>Assets</b>		
Current assets		
Cash	\$ 106,518	\$ 154,173
Accounts receivable	50,546	23,842
Prepaid expenses	5,187	8,913
Inventory	30,567	17,313
Deposits	-	670
Investments	38,900	-
Total current assets	231,718	204,911
Property and equipment, net	291,867	278,055
<b>Total assets</b>	<b>\$ 523,585</b>	<b>\$ 482,966</b>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 52,991	\$ 39,449
Accrued expenses	42,310	41,274
Deferred revenue	59,506	102,228
Total current liabilities	154,807	182,951
Note payable	40,000	-
Net Assets		
Unrestricted	288,828	233,683
Temporarily restricted	39,950	66,332
Total net assets	328,778	300,015
<b>Total liabilities and net assets</b>	<b>\$ 523,585</b>	<b>\$ 482,966</b>

See Accompanying Notes and Independent Accountants' Review Report

**Ann Arbor Art Association**  
**Statement of Activities**  
**For the Year Ended August 31, 2016**  
**(With Summarized Comparative Information for 2015)**

	Unrestricted	Temporarily Restricted	2016	2015
<b>Revenue and support</b>				
Art inventory sales	\$ 70,263	\$ -	\$ 70,263	\$ 51,524
Cost of goods sold	(43,266)	-	(43,266)	(40,809)
Net art inventory sales	<u>26,997</u>	<u>-</u>	<u>26,997</u>	<u>10,715</u>
Class fees	473,856	-	473,856	413,564
Cost of goods sold	(151,199)	-	(151,199)	(124,383)
Net class fees	<u>322,657</u>	<u>-</u>	<u>322,657</u>	<u>289,181</u>
Commissioned sales	207,147	-	207,147	233,297
Cost of goods sold	(107,662)	-	(107,662)	(149,889)
Net commissions from sales	<u>99,485</u>	<u>-</u>	<u>99,485</u>	<u>83,408</u>
Facility rent	34,359	-	34,359	21,465
Rent costs	(2,220)	-	(2,220)	(456)
Net facility rent	<u>32,139</u>	<u>-</u>	<u>32,139</u>	<u>21,009</u>
Special events	71,364	-	71,364	68,161
Special event costs	(30,639)	-	(30,639)	(25,502)
Net special events	<u>40,725</u>	<u>-</u>	<u>40,725</u>	<u>42,659</u>
Contributions and grants	96,206	208,856	305,062	216,158
Membership dues	11,720	-	11,720	16,850
Other revenue	52,311	-	52,311	50,748
Investment earnings	19,582	-	19,582	19,047
Net assets released from restrictions	235,238	(235,238)	-	-
Total revenue and support	<u>937,060</u>	<u>(26,382)</u>	<u>910,678</u>	<u>749,775</u>
<b>Operating expenses</b>				
Program services	495,747	-	495,747	599,764
Management and general	326,944	-	326,944	16,522
Fundraising	59,224	-	59,224	109,695
Total operating expenses	<u>881,915</u>	<u>-</u>	<u>881,915</u>	<u>725,981</u>
Change in net assets	<u>55,145</u>	<u>(26,382)</u>	<u>28,763</u>	<u>23,794</u>
Net assets at beginning of year	<u>233,683</u>	<u>66,332</u>	<u>300,015</u>	<u>276,221</u>
Net assets at end of year	<u>\$ 288,828</u>	<u>\$ 39,950</u>	<u>\$ 328,778</u>	<u>\$ 300,015</u>

See Accompanying Notes and Independent Accountants' Review Report

**Ann Arbor Art Association**  
**Schedule of Functional Expenses**  
**For the Year Ended August 31, 2016**  
**(With Summarized Comparative Information for 2015)**

	Total Program	Support Services		2016 Total	2015 Total
		Management and General	Fundraising		
Salaries	\$ 296,161	\$ 164,049	\$ 29,363	\$ 489,573	\$ 458,085
Payroll taxes	24,373	14,172	2,412	40,957	40,675
Other employee benefits	23,030	21,633	3,513	48,176	42,596
Total payroll	<u>343,564</u>	<u>199,854</u>	<u>35,288</u>	<u>578,706</u>	<u>541,356</u>
Ad purchases	21,891	3,947	226	26,064	18,352
Depreciation	-	27,182	-	27,182	25,195
Fundraising	1,293	-	9,461	10,754	1,400
Insurance	224	13,507	-	13,731	11,510
Interest	-	1,151	-	1,151	1,464
Miscellaneous	7,976	14,582	4,755	27,313	19,974
Other employment costs	1,758	-	655	2,413	2,752
Postage	221	2,095	1,802	4,118	1,720
Printing	1,810	314	6,661	8,785	5,276
Professional fees	31,165	6,370	-	37,535	35,473
Program expenses	82,557	-	-	82,557	8,650
Rental and maintenance	2,582	33,279	-	35,861	24,067
Telephone	40	8,416	-	8,456	9,692
Travel	666	371	376	1,413	1,773
Utilities	-	15,876	-	15,876	17,327
Total expenses	<u>\$ 495,747</u>	<u>\$ 326,944</u>	<u>\$ 59,224</u>	<u>\$ 881,915</u>	<u>\$ 725,981</u>

See Accompanying Notes and Independent Accountants' Review Report

**Ann Arbor Art Association**  
**Statement of Cash Flows**  
**(With Summarized Comparative Information for 2015)**

	2016	2015
<b>Cash flows form operating activities</b>		
Change in net assets	\$ 28,763	\$ 23,794
Items not requiring cash		
Depreciation	27,182	25,195
Change in operating assets and liabilities		
Accounts receivable	(26,704)	(22,042)
Prepaid expenses	3,726	1,334
Inventory	(13,254)	(1,132)
Deposits	670	(670)
Accounts payable	13,542	11,628
Accrued expenses	1,036	11,058
Deferred revenue	(42,722)	50,604
Line of credit	-	(23,400)
Net cash provided (used) by operating activities	(7,761)	76,369
<b>Cash flows from investing activities</b>		
Purchase of investments	(38,900)	-
Sale of investments	-	78,306
Net cash from purchase of fixed assets	(40,994)	(57,698)
Net cash provided (used) by investing activities	(79,894)	20,608
<b>Cash flows from financing activities</b>		
Loan proceeds	40,000	-
Change in cash	(47,655)	96,977
Cash, beginning of year	154,173	57,196
<b>Cash, end of year</b>	\$ 106,518	\$ 154,173

See Accompanying Notes and Independent Accountants' Review Report

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**August 31, 2016**  
**(With Summarized Comparative Information for 2015)**

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**Note 1 - Summary of Significant Accounting Policies**

**Nature of Activities**

Ann Arbor Art Association (the "Organization") is a Michigan non-profit organization. For 107 years, the Ann Arbor Art Association has been sparking creativity in people of all ages and artistic abilities. Our mission is "to be a contemporary forum for the visual arts through education, exploration, collaboration and exhibition, and to engage minds, expand perspectives and inspire growth in students of all ages, teachers, artists and the community." Through innovative programming, provocative exhibitions, wide-ranging learning courses, and a gallery shop offering handmade artworks, the Art Center engages over 49,500 people annually in exploring the arts

**Financial Statement Presentation**

Net assets of the Organization and changes therein, are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. There are no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

**Comparative Financial Information**

The financial information for the year August 31, 2015 is presented for comparative purposes is not intended to be a complete financial statement presentation.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents. The entire bank balance was insured by the FDIC.

**Accounts Receivable**

The Organization records program revenue for sales upon the purchase of merchandise or receipt of services by customers. Program revenue includes the lines described on the statement of activities as art inventory sales, class fees, commissioned sales and facility rent.

The Organization uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its receivables balances. Based on management's review, no allowance was deemed necessary as of August 31, 2016 and 2015.



**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
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**(With Summarized Comparative Information for 2015)**

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It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Finance charges are recorded monthly on balances that are considered past due. Amounts are past due when not paid by the end of the following month.

**Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions include the lines described on the statement of activities as contributions and grants.

**Conditional Promises to Give**

During fiscal 2016, the Organization received a conditional promise of \$350,000, due in annual installments commencing on or before December 31, 2016, with the last payment on or before December 31, 2020. Payment of the donation is contingent upon the Organization's ability to match the \$350,000 in contributions.

**Inventory**

Inventories consist of finished goods and are stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

**Investments**

Investments are stated at fair value based on quoted prices in active markets. Realized gains and losses on sales of investments represent the difference between the net sales price and the cost of securities sold. Unrealized gains and losses on investments represent the net change for the reported year in unrealized appreciation between the balance at the beginning and the end of the year. Donated investments are reflected as contributions at their fair values at date of receipt.

**Property and Equipment**

The Organization follows the practice of capitalizing all expenditures in excess of \$500 for property and equipment at cost; the fair value of donated fixed assets is similarly capitalized.

Furniture and equipment are stated at cost or fair market value at the date received. Major improvements are capitalized while ordinary maintenance and repairs are expensed.

The Organization evaluates long-lived assets for impairment using a discounted cash flow method whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with accounting principles generally accepted in the United States of America.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

Gifts of land, buildings, equipment and other long-lived assets are also reported as unrestricted revenue and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
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**Beneficial Interest in Assets Held by Others**

The Organization established an endowment held and managed by the Ann Arbor Area Community Foundation ("Foundation"). The Organization is eligible to receive distributions based on earnings on the average balance in the endowment. With the exception of the previously mentioned allowable disbursements and an annual fee, the Foundation cannot make disbursements of the endowment corpus. The Foundation has variance power of these funds.

**Donated Services and Goods**

The Organization records the value of donated goods as contributions using estimated fair values at the date of receipt. The Organization recognized donated supplies of \$15,436 and \$3,860 for the years ended August 31, 2016 and 2015, respectively.

**Advertising**

The Organization expenses advertising costs the first time the advertising occurs. Advertising expense for the years ended August 31, 2016 and 2015 was \$26,064 and \$18,352, respectively.

**Functional Expenses**

The allocation of expenses to the functional programs and management and general categories was computed using allocation percentages historically used during preparation of the Organization's budget. Management believes this is a reasonable approximation of the actual costs of the programs.

**Income Tax Status**

The Organization is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as an organization other than a private foundation, as described in Section 509(a). The Organization files information returns in the U.S. Federal and Michigan jurisdiction.

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent Events**

Management has evaluated subsequent events through June 13, 2017, which is the date the financial statements were available to be issued.

**Note 2 - Community Foundation**

In 2016, the Organization transferred \$38,900 to the Ann Arbor Area Community Foundation (AAACF) to fulfil a donor's request. AAACF holds and manages the fund transferred. In accordance with ASC 95-605-25, transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others, the fair market value of these funds, as reflected in the financial statements is \$38,900 and \$0 at August 31, 2016 and 2015, respectively. There were no contributions received by the Organization in 2015.

In addition, certain funds donated by outside donors for the benefit of the Organization are held and managed by AAACF. Such contribution are subject to variance power maintained by AAACF. The fair market value of these funds is \$468,615 and \$427,337 at August 31, 2016 and 2015, respectively. Earnings are available for distribution to the Organization for operations at the discretion of AAACF; therefore, principal balances are not reflected in the financial statements.

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**August 31, 2016**  
**(With Summarized Comparative Information for 2015)**

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**Note 3 - Property and Equipment**

Major classes of assets and related accumulated depreciation thereon are summarized as follows:

	2016	2015
Buildings	\$ 92,254	\$ 92,254
Building improvements	642,830	606,654
Equipment	166,703	161,884
Land	25,000	25,000
	926,787	885,792
Less: accumulated depreciation	(634,920)	(607,737)
Net property and equipment	\$ 291,867	\$ 278,055

**Note 4 - Operating Lease**

The Organization leases various types of office equipment under operating leases expiring in various years through 2018. The following is a summary of future payments relating to the operating leases:

For the year endind August 31,

2017	\$ 6,735
2018	2,677
Total	\$ 9,412

Related expenses relating to the leases for both August 31, 2016 and 2015 were \$8,112.

**Note 5 - Note Payable**

In August 2016, the Organization entered into an unsecured loan agreement with the Ann Arbor Area Community Foundation for \$40,000. The note includes interest at the rate of 1% per annum. The balance is due in one lump sum on September 15, 2019. Interest will be paid quarterly starting September 31, 2016.

**Note 6 - Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at August 31:

	2016	2015
POP-X	\$ 39,950	\$ 64,608
ArtReach	-	1,724
Total temporarily restricted net assets	\$ 39,950	\$ 66,332

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**August 31, 2016**  
**(With Summarized Comparative Information for 2015)**

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**Note 7 - Fair Value Measurements**

The following tables represent information about the Organization's assets and liabilities measured at fair value on a recurring basis at August 31, 2016 and 2015, and the valuation techniques used by the Organization to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

There are only level 3 inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Organization measures the beneficial interest funds held at the AAACF at fair value on a recurring basis. The fair value of the beneficial interest and promises to give were determined primarily based on Level 3 inputs. The Organization estimates the fair value of the investments based upon the Organization's relative share of assets held and reported by the AAACF, unless the facts and circumstances indicate the fair value would be different from the present value of the estimated future distributions. The Organization estimates the fair value of the promises to give based on the net present value of pledges.

Disclosures concerning assets and liabilities measured at fair value on a recurring basis are as follows:

	Balance at August 31, 2016	Significant Unobservable inputs (Level 3)	Balance at August 31, 2015	Significant Unobservable inputs (Level 3)
Beneficial interest in the Ann Arbor Area Community Foundation Endowment	<u>\$ 38,900</u>	<u>\$ 38,900</u>	<u>\$ -</u>	<u>\$ -</u>

There were no changes to the balances and the only activity was the initial addition of funds in 2016.