

Ann Arbor Art Association
Financial Statements
August 31, 2019 (With Summarized Comparative
Information for 2018)



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Independent Auditors' Report

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

We have audited the accompanying financial statements of Ann Arbor Art Association which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor Art Association as of August 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, Ann Arbor Art Association changed its method of accounting for net assets, investment expense, and functional expenses in 2019 as required by the provisions of FASB Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Ann Arbor Art Association and subsidiaries 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 14, 2019. In our opinion, the summarized comparative information presented herein, with the exception of the matter discussed in Note 1, as of and for the year ended August 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, MI

January 29, 2020

Ann Arbor Art Association
Statement of Financial Position
August 31, 2019
(With Summarized Comparative Information for 2018)

	2019	2018
Assets		
Current assets		
Cash	\$ 191,367	\$ 304,360
Accounts receivable	44,500	19,475
Pledges receivable - current, net	258,226	261,679
Prepaid expenses	25,829	42,095
Inventory	31,435	30,021
Total current assets	551,357	657,630
Non-current assets		
Beneficial interest held by others	54,908	55,432
Pledges receivable - noncurrent, net	302,073	258,469
Property and equipment, net	3,080,061	2,856,712
Total non-current assets	3,437,042	3,170,613
Total assets	\$ 3,988,399	\$ 3,828,243
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 23,616	\$ 59,865
Accrued expenses	16,600	17,023
Deferred revenue	69,756	61,439
Total current liabilities	109,972	138,327
Long-term liabilities		
Note payable	2,104,500	2,264,500
Net assets		
Without donor restrictions		
Undesignated	1,059,002	684,382
Designated by the Board for endowment	15,408	16,132
Total without donor restrictions	1,074,410	700,514
With donor restrictions		
Time-restricted for future periods	660,017	685,602
Perpetual in nature	39,500	39,300
Total with donor restrictions	699,517	724,902
Total net assets	1,773,927	1,425,416
Total liabilities and net assets	\$ 3,988,399	\$ 3,828,243

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Statement of Activities
For the Year Ended August 31, 2019
(With Summarized Comparative Information for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019	2018
Revenue, support and gains (losses)				
Contributions and grants	\$ 238,591	\$ 200	\$ 238,791	\$ 177,519
Capital campaign	-	504,632	504,632	446,532
Class fees	569,766	-	569,766	555,936
Art inventory sales	67,756	-	67,756	75,135
Facility rent revenue	105,189	-	105,189	147,252
Special events	134,860	-	134,860	110,956
In-kind revenue	11,891	-	11,891	11,164
Membership dues	11,095	-	11,095	9,510
Other revenue	13,942	-	13,942	32,376
Investment earnings	21,331	-	21,331	23,997
Net assets released from restrictions	<u>530,217</u>	<u>(530,217)</u>	<u>-</u>	<u>-</u>
Total revenue, support and gains (losses)	<u>1,704,638</u>	<u>(25,385)</u>	<u>1,679,253</u>	<u>1,590,377</u>
Expenses				
Program services	796,605	-	796,605	972,070
Supporting services				
115 Property	153,415	-	153,415	-
Management and general	137,022	-	137,022	129,758
Fundraising	<u>243,700</u>	<u>-</u>	<u>243,700</u>	<u>174,704</u>
Total supporting services	<u>534,137</u>	<u>-</u>	<u>534,137</u>	<u>304,462</u>
Total expenses	<u>1,330,742</u>	<u>-</u>	<u>1,330,742</u>	<u>1,276,532</u>
Change in net assets	373,896	(25,385)	348,511	313,845
Net assets at beginning of year	<u>700,514</u>	<u>724,902</u>	<u>1,425,416</u>	<u>1,111,571</u>
Net assets at end of year	<u>\$ 1,074,410</u>	<u>\$ 699,517</u>	<u>\$ 1,773,927</u>	<u>\$ 1,425,416</u>

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Statement of Functional Expenses
For the Year Ended August 31, 2019
(With Summarized Comparative Information for 2018)

	Program	Support Services			2019 Total	2018 Total
		115 Property	Management and General	Fundraising		
Salaries	\$ 317,410	\$ -	\$ 81,665	\$ 132,868	\$ 531,943	\$ 559,360
Payroll taxes	27,863	-	6,269	10,397	44,529	47,711
Other employee benefits	36,633	-	16,790	21,539	74,962	70,361
Total payroll	<u>381,906</u>	<u>-</u>	<u>104,724</u>	<u>164,804</u>	<u>651,434</u>	<u>677,432</u>
Cost of goods sold	87,872	-	-	-	87,872	106,873
Education expenses	121,082	-	-	-	121,082	126,604
Rental expenses	56	-	-	-	56	230
Gallery expenses	33,522	-	-	-	33,522	24,632
Occupancy expenses	58,899	114,211	2,554	2,823	178,487	182,957
Office expenses	13,151	-	7,137	6,351	26,639	27,462
Advertising expenses	45,351	-	348	13,022	58,721	34,857
Professional fees	17,322	-	12,131	1,532	30,985	26,614
Insurance expenses	920	2,906	7,836	40	11,702	11,211
Depreciation expense	60,494	36,298	1,577	1,342	99,711	75,341
Capital campaign expense	-	-	-	42,529	42,529	47,289
Miscellaneous expense	63,902	-	715	11,257	75,874	41,903
Total expenses	<u>884,477</u>	<u>153,415</u>	<u>137,022</u>	<u>243,700</u>	<u>1,418,614</u>	<u>1,383,405</u>
Less expenses included in revenues in the statement of activities						
Cost of goods sold	<u>(87,872)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87,872)</u>	<u>(106,873)</u>
Total expenses included in the expenses section on the statement of activities	<u>\$ 796,605</u>	<u>\$ 153,415</u>	<u>\$ 137,022</u>	<u>\$ 243,700</u>	<u>\$ 1,330,742</u>	<u>\$ 1,276,532</u>

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Statement of Cash Flows
For the Year Ended August 31, 2019
(With Summarized Comparative Information for 2018)

	2019	2018
Cash flows form operating activities		
Change in net assets	\$ 348,511	\$ 313,845
Items not requiring cash		
Depreciation	99,711	75,341
Allowance/discount present value	4,248	(7,917)
Change in operating assets and liabilities		
Accounts receivable	(25,025)	(1,577)
Pledges receivable	(44,399)	(34,795)
Prepaid expenses	16,266	(36,437)
Inventory	(1,414)	54
Accounts payable	(36,249)	9,911
Accrued expenses	(423)	8,281
Deferred revenue	8,317	(990)
Net cash provided by operating activities	369,543	325,716
Cash flows from investing activities		
Purchase of investments	-	(2,830)
Proceeds from sale of investments	524	-
Purchases of property and equipment	(323,060)	(2,371,290)
Net cash used by investing activities	(322,536)	(2,374,120)
Cash flows from financing activities		
Loan proceeds	-	2,250,000
Loan payments	(160,000)	(25,500)
Net cash provided (used) by financing activities	(160,000)	2,224,500
Change in cash	(112,993)	176,096
Cash, beginning of year	304,360	128,264
Cash, end of year	\$ 191,367	\$ 304,360
 <u>Supplemental Cash Flow Information</u>		
Cash paid for interest	\$ 95,641	\$ 67,329

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Notes to the Financial Statements
August 31, 2019
(With Summarized Comparative Information for 2018)

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

Ann Arbor Art Association (the "Organization") is a Michigan non-profit organization. For over 100 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.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Comparative Financial Information

The financial information for the year August 31, 2018 is presented for comparative purposes is not intended to be a complete financial statement presentation. Certain items were reclassified to more accurately report their purpose.

Cash

The Organization considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents. The bank balance as of year-end was \$175,391 of that amount all \$175,391 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, and facility rent.

The Organization uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its receivable's balances. Based on management's review, no allowance was deemed necessary as of August 31, 2019 and 2018.

Ann Arbor Art Association
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August 31, 2019
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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.

The Organization initially records unconditional promises to give at fair value using the income approach and subsequently amortizes them using the original discount rate.

Inventory

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

Property and Equipment

The Organization follows the practice of capitalizing all expenditures in excess of \$1,000 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 without donor restrictions 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 net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

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 Goods

The Organization records the value of donated goods as contributions using estimated fair values at the date of receipt. The Organization recognized donated goods of \$11,891 and \$11,164 for the years ended August 31, 2019 and 2018, respectively.

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Advertising

The Organization expenses advertising costs the first time the advertising occurs. Advertising expense for the years ended August 31, 2019 and 2018 was \$58,721 and \$34,857, respectively.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those expenses include personnel and occupancy. Personnel related expenses are allocated based on a time and cost study of where efforts are made, occupancy and depreciation are allocated based on a square footage basis.

115 Property

115 Property are the costs of the 115 Property obtained in 2018 for program expansion. These costs are offset by \$77,237 and \$147,252 in facility rent revenue in the interim while leases existed and while final construction plans were developed for the years ended August 31, 2019 and 2018, respectively. .

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 January 29, 2020, which is the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

Ann Arbor Art Association
Notes to the Financial Statements
August 31, 2019
(With Summarized Comparative Information for 2018)

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>Total</u>
Cash and cash equivalents	\$ 37,815
Accounts receivable	44,500
Distributions from beneficial interests in assets held by others	<u>20,000</u>
	<u>\$ 102,315</u>

The Organization's goal is generally to maintain financial assets to meet 30 days of operating expenses (approximately \$100,000). The Organization has a \$100,000 line of credit available to meet cash flow needs.

Note 3 - Community Foundation

The Organization transferred funds to the Ann Arbor Area Community Foundation (AAACF) to fulfil a donor's request. AAACF holds and manages the funds transferred. Transfers of assets to a not-for-profit organization or charitable trust that raises or holds contributions for others are done so in accordance with ASC 95-605-25. The fair market value of these funds is \$54,908 and \$55,432 as of August 31, 2019 and 2018, respectively.

In addition, certain funds donated by outside donors for the benefit of the Organization are held and managed by AAACF. Such contributions are subject to variance power maintained by AAACF. The fair market value of these funds is \$496,626 and \$506,114 at August 31, 2019 and 2018, 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
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(With Summarized Comparative Information for 2018)

Note 4 - Unconditional Promises to Give

Unconditional promises to give as of August 31 consist of the following:

	<u>2019</u>	<u>2018</u>
Promises to give	\$ 601,594	\$557,195
Allowance for uncollectible promises to give	<u>(41,295)</u>	<u>(37,047)</u>
Net promises to give	<u>\$ 560,299</u>	<u>\$520,148</u>
Amounts due in		
2020	258,226	
2021	178,768	
2022	92,100	
2023	<u>72,500</u>	
	601,594	
Less discount to net present value	<u>(41,295)</u>	
Total	<u>\$ 560,299</u>	

The promises to give are recorded using the original discount rate of 0.0456% in 2018 and 2017, respectively.

Note 5 - Property and Equipment

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

	<u>2019</u>	<u>2018</u>
Buildings	\$ 2,342,254	\$ 2,342,254
Building improvements	1,013,758	734,392
Equipment	171,087	168,735
Land	275,000	275,000
Construction in Progress	<u>115,359</u>	<u>74,017</u>
	3,917,458	3,594,398
Less: accumulated depreciation	<u>(837,397)</u>	<u>(737,686)</u>
Net property and equipment	<u>\$ 3,080,061</u>	<u>\$ 2,856,712</u>

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Note 6 - Operating Lease

The Organization leases various types of office equipment under operating leases expiring in various years through 2022. The following is a summary of future payments relating to the operating leases:

For the year ending August 31,	
2020	\$ 5,193
2021	5,193
2022	<u>3,462</u>
Total	<u>\$ 13,848</u>

Expenses relating to the leases for both August 31, 2019 and 2018 were \$5,193 and \$7,871, respectively.

Note 7 - 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 is paid quarterly. On December 15, 2017, the Organization obtained a bank note for \$4,000,000 for the purchase of an adjacent property and building. The note's terms are interest only payments on the drawn amount per month for 60 months with a balloon payment of any remaining balance in December 2022. The interest rate on the note is 4.5% and the balance as of August 31, 2019 was \$2,064,500.

Note 8 - Net Assets with Donor Restrictions

Net assets time restricted for future periods are available for the following purposes at August 31:

	<u>2019</u>	<u>2018</u>
Capital Campaign	<u>\$ 660,017</u>	<u>\$ 685,602</u>

Net assets perpetual in nature are available for the following purposes at August 31:

	<u>2019</u>	<u>2018</u>
Endowment	<u>\$ 39,500</u>	<u>\$ 39,300</u>

Note 9 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended August 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions		
Capital Campaign	<u>\$ 530,217</u>	<u>\$ 242,307</u>

Ann Arbor Art Association
Notes to the Financial Statements
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Note 10 - 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, 2019 and 2018, 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.

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

	Balance at August 31, 2019	Significant Unobservable inputs (Level 3)	Balance at August 31, 2018	Significant Unobservable inputs (Level 3)
Beneficial interest in the Ann Arbor Area Community Foundation Endowment	\$ 54,908	\$ 54,908	\$ 55,432	\$ 55,432

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis:

Balance at August 31, 2017	\$ 52,602
Additional contribution to endowment fund	2,830
Balance at August 31, 2018	55,432
Change in value of endowment fund	(524)
Balance at August 31, 2019	\$ 54,908

Note 11 - Donor and Board Restricted Endowments

The Ann Arbor Art Association's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified based on those donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor restricted endowment funds, unless there are explicit donor stipulations to the contrary. At August 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts including promises to give net of discount and allowance for doubtful accounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) The duration and preservation of the fund; (2) The purposes of the organization and the donor restricted endowment fund; (3) General economic conditions ; (4) The possible effect of inflation and deflation; (5) The expected total return from income and the appreciation of investments; (6) Other resources of the organization; and (7) The investment policies of the organization.

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The endowment net asset composition by type of fund as of August 31, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 39,500	\$ 39,500
Unrestricted endowment funds	<u>15,408</u>	<u>-</u>	<u>15,408</u>
Total funds	<u>\$ 15,408</u>	<u>\$ 39,500</u>	<u>\$ 54,908</u>

Changes in endowment net assets for the year ended August 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 16,132	\$ 39,300	\$ 55,432
Investment income (loss)	<u>(724)</u>	<u>200</u>	<u>(524)</u>
End of year	<u>\$ 15,408</u>	<u>\$ 39,500</u>	<u>\$ 54,908</u>

The endowment net asset composition by type of fund as of August 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 39,300	\$ 39,300
Unrestricted endowment funds	<u>16,132</u>	<u>-</u>	<u>16,132</u>
Total funds	<u>\$ 16,132</u>	<u>\$ 39,300</u>	<u>\$ 55,432</u>

The changes in endowment net assets for the year ended August 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 13,502	\$ 39,100	\$ 52,602
Investment income	<u>2,630</u>	<u>200</u>	<u>2,830</u>
End of year	<u>\$ 16,132</u>	<u>\$ 39,300</u>	<u>\$ 55,432</u>

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Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The funds are held in beneficial interest at the Ann Arbor Area Community Foundation (AAACF) and are invested following AAACF's investment policy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowment funds are subject to the investment and distribution policies of AAACF. The Organization determines annually whether it will accept the distribution designated by AAACF or ask that it be reinvested for growth.

Note 12 - Related Party

The Organization makes certain payments to various board members and shareholders for services provided in the normal course of business. Payments to these board members were \$50,480 and \$13,230 for 2019 and 2018, respectively. There were no related party receivables or payables outstanding as of year-end 2019 and 2018, respectively.

Note 13 - Subsequent Events

In January 2020, the Organization amended their unsecured loan agreement with the Ann Arbor Area Community Foundation for \$40,000. The unamended note's balance was due in one lump sum on September 15, 2019. The amended due date for the loan is September 15, 2020.

The remaining note payable on the 115 W Liberty Property was \$2,065,500 as of August 31, 2019. During September 2020, part of the 115 W Liberty Property was remodeled to allow for more classroom space overall. Then on October 25, 2019, the Property was converted into a condo and the third floor was sold off. This with additional payments reduced the mortgage to a balance of only \$700,000 by January 7, 2020.