

**Ann Arbor Art Association**  
**Financial Statements**  
**August 31, 2020 (With Summarized Comparative**  
**Information for 2019)**



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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, 2020, 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, 2020, 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 revenue recognition in 2020 as required by the provisions of FASB Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* and changed its method of accounting for contributions in 2020 as required by the provisions of FASB Accounting Standards Update 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

## **Report on Summarized Comparative Information**

We have previously audited Ann Arbor Art Association's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 29, 2020. 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 28, 2021

**Ann Arbor Art Association**  
**Statement of Financial Position**  
**August 31, 2020**  
(With Summarized Comparative Information for 2019)

	2020	2019
<b>Assets</b>		
Current assets		
Cash	\$ 602,003	\$ 160,518
Pledges receivable - current, net	296,259	302,726
Prepaid expenses	14,850	56,678
Inventory	32,020	31,435
Total current assets	945,132	551,357
Non-current assets		
Beneficial interest held by others	52,434	54,908
Pledges receivable - noncurrent, net	297,705	302,073
Property and equipment, net	2,232,212	3,080,061
Total non-current assets	2,582,351	3,437,042
<b>Total assets</b>	<b>\$ 3,527,483</b>	<b>\$ 3,988,399</b>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 51,167	\$ 23,616
Accrued expenses	13,621	16,600
Deferred revenue	137,411	69,756
Long-term debt, current portion	37,333	-
Total current liabilities	239,532	109,972
Long-term liabilities		
Long-term debt, net of current portion	852,667	2,104,500
Net assets		
Without donor restrictions		
Undesignated	1,633,192	1,059,002
Designated by the Board for endowment	10,734	15,408
Total without donor restrictions	1,643,926	1,074,410
With donor restrictions		
Time-restricted for future periods	749,658	660,017
Perpetual in nature	41,700	39,500
Total with donor restrictions	791,358	699,517
Total net assets	2,435,284	1,773,927
<b>Total liabilities and net assets</b>	<b>\$ 3,527,483</b>	<b>\$ 3,988,399</b>

See Accompanying Notes to the Financial Statements

**Ann Arbor Art Association**  
**Statement of Activities**  
**For the Year Ended August 31, 2020**  
**(With Summarized Comparative Information for 2019)**

	Without Donor Restrictions	With Donor Restrictions	<b>2020</b>	2019
<b>Revenue, support and gains (losses)</b>				
Contributions and grants	\$ 601,285	\$ 2,200	\$ <b>603,485</b>	\$ 238,791
Capital campaign	78,052	663,639	<b>741,691</b>	504,632
Class fees	295,040	-	<b>295,040</b>	569,766
Art inventory sales	45,740	-	<b>45,740</b>	67,756
Facility rent revenue	37,077	-	<b>37,077</b>	105,189
Special events	45,694	-	<b>45,694</b>	134,860
In-kind revenue	1,869	-	<b>1,869</b>	11,891
Membership dues	6,020	-	<b>6,020</b>	11,095
Other revenue	12,329	-	<b>12,329</b>	13,942
Gain on sale of asset	10,269	-	<b>10,269</b>	-
Investment earnings	19,925	-	<b>19,925</b>	21,331
Net assets released from restrictions	<u>573,998</u>	<u>(573,998)</u>	<u>-</u>	<u>-</u>
Total revenue, support and gains (losses)	<u>1,727,298</u>	<u>91,841</u>	<u><b>1,819,139</b></u>	<u>1,679,253</u>
<b>Expenses</b>				
Program services	798,732	-	<b>798,732</b>	796,605
Supporting services				
Management and general	162,161	-	<b>162,161</b>	290,437
Fundraising	<u>196,889</u>	<u>-</u>	<u><b>196,889</b></u>	<u>243,700</u>
Total supporting services	<u>359,050</u>	<u>-</u>	<u><b>359,050</b></u>	<u>534,137</u>
Total expenses	<u>1,157,782</u>	<u>-</u>	<u><b>1,157,782</b></u>	<u>1,330,742</u>
<b>Change in net assets</b>	569,516	91,841	<b>661,357</b>	348,511
Net assets at beginning of year	<u>1,074,410</u>	<u>699,517</u>	<u><b>1,773,927</b></u>	<u>1,425,416</u>
Net assets at end of year	<u>\$ 1,643,926</u>	<u>\$ 791,358</u>	<u><b>\$ 2,435,284</b></u>	<u>\$ 1,773,927</u>

See Accompanying Notes to the Financial Statements

**Ann Arbor Art Association**  
**Statement of Functional Expenses**  
**For the Year Ended August 31, 2020**  
**(With Summarized Comparative Information for 2019)**

	Program	Support Services		2020 Total	2019 Total
		Management and General	Fundraising		
Salaries	\$ 298,288	\$ 56,231	\$ 81,253	\$ 435,772	\$ 531,943
Payroll taxes	35,995	-	-	35,995	44,529
Other employee benefits	24,703	18,339	23,947	66,989	74,962
Total payroll	<u>358,986</u>	<u>74,570</u>	<u>105,200</u>	<u>538,756</u>	<u>651,434</u>
Cost of goods sold	65,658	-	-	65,658	87,872
Education expenses	149,459	-	-	149,459	121,082
Rental expenses	-	-	-	-	56
Gallery expenses	27,293	-	-	27,293	33,522
Occupancy expenses	52,894	22,194	1,048	76,136	178,487
Office expenses	11,230	10,714	5,005	26,949	26,639
Advertising expenses	25,164	195	4,703	30,062	58,721
Professional fees	33,607	37,776	750	72,133	30,985
Insurance expenses	1,808	10,246	-	12,054	11,702
Depreciation expense	84,082	4,220	1,628	89,930	99,711
Capital campaign expense	-	-	76,753	76,753	42,529
Miscellaneous expense	54,209	2,246	1,802	58,257	75,874
Total expenses	<u>864,390</u>	<u>162,161</u>	<u>196,889</u>	<u>1,223,440</u>	<u>1,418,614</u>
Less expenses included in revenues in the statement of activities					
Cost of goods sold	<u>(65,658)</u>	<u>-</u>	<u>-</u>	<u>(65,658)</u>	<u>(87,872)</u>
Total expenses included in the expenses section on the statement of activities	<u>\$ 798,732</u>	<u>\$ 162,161</u>	<u>\$ 196,889</u>	<u>\$ 1,157,782</u>	<u>\$ 1,330,742</u>

See Accompanying Notes to the Financial Statements

**Ann Arbor Art Association**  
**Statement of Cash Flows**  
**For the Year Ended August 31, 2020**  
**(With Summarized Comparative Information for 2019)**

	<u>2020</u>	<u>2019</u>
<b>Cash flows form operating activities</b>		
Change in net assets	\$ 661,357	\$ 348,511
Items not requiring cash		
Depreciation	89,930	99,711
Gain on disposal of property	(10,269)	-
Allowance/discount present value	5,400	4,248
Change in operating assets and liabilities		
Pledges receivable	5,435	(69,424)
Prepaid expenses	41,828	(14,583)
Inventory	(585)	(1,414)
Accounts payable	27,551	(36,249)
Accrued expenses	(2,979)	(423)
Deferred revenue	67,655	8,317
	<u>885,323</u>	<u>338,694</u>
Net cash provided by operating activities		
	<u>885,323</u>	<u>338,694</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	2,474	524
Purchases of property and equipment	(89,781)	(323,060)
Proceeds from sales of other assets	857,969	-
	<u>770,662</u>	<u>(322,536)</u>
Net cash provided (used) by investing activities		
	<u>770,662</u>	<u>(322,536)</u>
<b>Cash flows from financing activities</b>		
Loan proceeds	150,000	-
Loan payments	(1,364,500)	(160,000)
	<u>(1,214,500)</u>	<u>(160,000)</u>
Net cash used by financing activities		
	<u>(1,214,500)</u>	<u>(160,000)</u>
Change in cash	441,485	(143,842)
Cash, beginning of year	160,518	304,360
<b>Cash, end of year</b>	<u>\$ 602,003</u>	<u>\$ 160,518</u>
<b><u>Supplemental Cash Flow Information</u></b>		
Cash paid for interest	<u>\$ 33,732</u>	<u>\$ 95,641</u>

See Accompanying Notes to the Financial Statements



**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**August 31, 2020**  
**(With Summarized Comparative Information for 2019)**

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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 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, 2019 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 \$601,220 of that amount all \$316,824 was uninsured 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, 2020 and 2019.

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
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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.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees are deferred to the applicable period in which the performance obligations are met. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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**Notes to the Financial Statements**  
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**Paycheck Protection Program (PPP) Loan**

The Organization accounts for the PPP loan as a conditional contribution under FASB ASC 958-605 Not-for-Profit Entities: Revenue Recognition. The conditions have been met for revenue recognition. However, the SBA has not yet legally forgiven the loan of \$124,765.

**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 \$1,869 and \$11,891 for the years ended August 31, 2020 and 2019, respectively.

**Advertising**

The Organization expenses advertising costs the first time the advertising occurs. Advertising expense for the years ended August 31, 2020 and 2019 was \$30,062 and \$58,721, 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.

**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 28, 2021, which is the date the financial statements were available to be issued.

**Change in Accounting Principle**

The Organization adopted ASU 2018-08 Not-for-Profit Entities (Topic 958) *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* as of the beginning of the year ended August 31, 2020. This has been adopted using a modified prospective approach. Net assets did not change as a result of adoption of the new standard.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles of recognizing revenue, create common revenue recognition guidance, and improve disclosures. Accordingly, the Organization has elected to implement this standard using a modified retrospective adjustment of the prior year financial statements. Net assets did not change as a result of this change.

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
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**(With Summarized Comparative Information for 2019)**

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**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 at August 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 446,309	\$ 37,815
Promises to give	-	44,500
Distributions from beneficial interests in assets held by others	10,734	20,000
Financial assets available to meet cash needs for general expenditures within one year	\$ 457,043	\$ 102,315

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 - Revenue from Contracts with Customers**

The following summarizes revenue by type for the year ended August 31, 2020 and 2019:

	2020	2019
Revenues from contracts with customers	\$ 392,494	\$ 783,477
Contributions and grants	603,485	238,791
Capital campaign	741,691	504,632
Facility rent revenue	37,077	105,189
In-kind revenue	1,869	11,891
Other revenue	12,329	13,942
Gain on sale of asset	10,269	-
Investment earnings	19,925	21,331
Total revenue	\$ 1,819,139	\$ 1,679,253

The revenue from contracts with customers for the year ended August 31, 2020 and 2019 consists of:

	2020	2019
Revenue earned at a point in time	\$ 386,474	\$ 774,581
Revenue earned over time	6,020	8,896
Total revenue from contracts with customers	\$ 392,494	\$ 783,477

Revenue earned at a point in time consists of various educational programs provided to registered students in the Ann Arbor Area. Generally, education programs must be prepaid and therefore the revenues and cash flows related to these programs are not subject to the same amount of uncertainty as other programs. The educational

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programs can vary in length from one day to several weeks with the performance obligation typically satisfied when the attendee attends the class; if the attendee does not attend the entire class or withdrawal from the program is not timely, revenue is still earned. This is because if the attendee attends a portion of the event or does not withdrawal from the program fewer than five days from the first day of class, they will not be refunded their money. There is variable consideration for the events depending on who is attending and when they pay, however, the variable consideration is not constrained. The transaction price is calculated using the expected value method based on historical experience for each price. Because the majority of attendees are students paying in advance, there is no constraint.

Revenue earned at a point in time consists of various special events provided to art enthusiasts in the Ann Arbor Area. Generally, special events must be prepaid and therefore the revenues and cash flows related to these programs are not subject to the same amount of uncertainty as other programs. The special events are one day events with the performance obligation satisfied when the attendee attends the event or the event takes place; if the attendee does not attend the entire event, revenue is still earned. This is because the attendee could have experienced the program if the event occurred, and they will not be refunded their money. There is variable consideration for the events depending on who is attending and when they pay, however, the variable consideration is not constrained. The transaction price is calculated using the expected value method based on historical experience for each price. Because the majority of attendees are paying in advance, there is no constraint.

Revenue earned at a point in time consists of art sales with customers. Art is paid for at time of transaction and therefore the revenues and cash flows related to art sales are not subject to uncertainty. The transaction generally occurs in store with the performance obligation typically satisfied when the customer makes the purchase and revenue is thus earned. This is because art sales are final, and they will not be refunded their money. There is no variable consideration for the art sales depending on who is purchasing. The transaction price is calculated using the expected value method based on historical experience for each price. Because the majority of sales are customers paying in-store, there is no constraint.

The following summarizes contract assets and contract liabilities as of:

	August 31, 2020	August 31, 2019	September 1, 2018
Deferred revenue	\$ 137,411	\$ 69,756	\$ 61,439

There were no changes in judgments related to revenue recognition for the years ended August 31, 2020 and 2019.

The Organization uses the practical expedient to record revenue as if there is no significant financing component when the receivable is due within one year.

**Note 4 - 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 \$52,434 and \$54,908 as of August 31, 2020 and 2019, 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

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these funds is \$503,336 and \$496,626 at August 31, 2020 and 2019, 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.

**Note 5 - Unconditional Promises to Give**

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

	2020	2019
Promises to give	\$ 629,859	\$ 646,094
Allowance for uncollectible promises to give	(35,895)	(41,295)
Net promises to give	\$ 593,964	\$ 604,799
Amounts due in		
2021	\$ 296,259	
2022	143,100	
2023	113,500	
2024	41,000	
2025	36,000	
Less discount to net present value	(35,895)	
Total	\$ 593,964	

The promises to give are recorded using the original discount rate of 3.0% and 4.56% in 2020 and 2019, respectively.

**Note 6 - Property and Equipment**

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

	2020	2019
Buildings	\$ 1,554,754	\$ 2,342,254
Building improvements	1,181,752	1,013,758
Equipment	196,335	171,087
Land	187,500	275,000
Construction in Progress	-	115,359
	3,120,341	3,917,458
Less: accumulated depreciation	(888,129)	(837,397)
Net property and equipment	\$ 2,232,212	\$ 3,080,061

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
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**Note 7 - 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,		
2021	\$	5,474
2022		<u>3,462</u>
Total	\$	<u>8,936</u>

Expenses relating to the leases for both August 31, 2020 and 2019 were \$6,598 and \$5,193, respectively.

**Note 8 - 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, 2020. 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, 2020 was \$700,000. The Organization obtained the SBA Economic Injury Disaster Loan in May 2020 for \$150,000 at an interest rate of 2.75% for a maturity term of 30 years with all proceeds outstanding as of August 31, 2020.

Interest expenses for 2020 and 2019 amounted to \$33,732 and \$95,641, respectively.

Annual note maturities are scheduled as follows:

Year Ending August 31,		
<u>2021</u>	\$	37,333
2022		3,538
2023		703,637
2024		3,738
2025		3,842
Thereafter		<u>137,912</u>
Total long-term debt	\$	<u>890,000</u>

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
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**Note 9 - Net Assets with Donor Restrictions**

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

	2020	2019
Capital Campaign	\$ 749,658	\$ 660,017

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

	2020	2019
Endowment	\$ 41,700	\$ 39,500

**Note 10 - 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, 2020 and 2019:

	2020	2019
Satisfaction of purpose restrictions		
Capital Campaign	\$ 573,998	\$ 530,217

**Note 11 - 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, 2020 and 2019, 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



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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, 2020	Significant Unobservable inputs (Level 3)	Balance at August 31, 2019	Significant Unobservable inputs (Level 3)
Beneficial interest in the Ann Arbor Area Community Foundation Endowment	\$ 52,434	\$ 52,434	\$ 54,908	\$ 54,908

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

Balance at August 31, 2018	\$ 55,432
Change in value of endowment fund	(524)
Balance at August 31, 2019	54,908
Change in value of endowment fund	(2,474)
Balance at August 31, 2020	\$ 52,434

**Note 12 - 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, 2020 and 2019, 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, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 41,700	\$ 41,700
Unrestricted endowment funds	10,734	-	10,734
Total funds	<u>\$ 10,734</u>	<u>\$ 41,700</u>	<u>\$ 52,434</u>

Changes in endowment net assets for the year ended August 31, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 15,408	\$ 39,500	\$ 54,908
Contributions	-	2,200	2,200
Investment income (loss)	(4,674)	-	(4,674)
End of year	<u>\$ 10,734</u>	<u>\$ 41,700</u>	<u>\$ 52,434</u>

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	15,408	-	15,408
Total funds	<u>\$ 15,408</u>	<u>\$ 39,500</u>	<u>\$ 54,908</u>

The 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)	(724)	200	(524)
End of year	<u>\$ 15,408</u>	<u>\$ 39,500</u>	<u>\$ 54,908</u>

**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.

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**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 13 - 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 \$12,000 and \$50,480 for 2020 and 2019, respectively. There were no related party receivables or payables outstanding as of year-end 2020 and 2019, respectively.

**Note 14 - COVID-19 Pandemic**

As result of the global coronavirus pandemic of 2020, many organizations' financial picture has seen an unanticipated change. The duration and full effects of the outbreak are currently unknown, as the global picture continues to change daily. Currently, it is not possible to estimate the extent of any potential net losses or to determine if any of the change in fair values are other than temporary in nature. Accordingly, no adjustments to the financial statements were made as a result of this subsequent event.