

**Ann Arbor Art Association**  
**Financial Statements**  
**December 31, 2021 (With Summarized Comparative**  
**Information for August 31, 2020)**



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## **Independent Auditors' Report**

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

### **Opinion**

We have audited the accompanying financial statements of Ann Arbor Art Association (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the sixteen months then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor Art Association as of December 31, 2021, and the changes in its net assets and its cash flows for the sixteen months then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ann Arbor Art Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ann Arbor Art Association's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a

substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ann Arbor Art Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ann Arbor Art Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Report on Summarized Comparative Information**

We have previously audited Ann Arbor Art Association's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of financial position as of December 31, 2021 included in the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Compiled Supplementary Information**

Management is responsible for the accompanying financial statements of Ann Arbor Art Association, which comprise the statement of financial position as of December 31, 2020 and the related statements of activities, and functional expenses for the year then ended as well as the statement of activities and statement of functional

expenses for the twelve months ending December 31, 2021 in accordance with accounting principles generally accepted in the United States of America. We have performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

*Yeo & Yeo, P.C.*

Ann Arbor, Michigan  
May 11, 2022

**Ann Arbor Art Association**  
**Statement of Financial Position**  
**For the Sixteen Months Ended December 31, 2021**  
**(With Summarized Comparative Information for the Twelve Months Ended August 31, 2020)**

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Current assets		
Cash	\$ 981,611	\$ 602,003
Pledges receivable, current portion	534,140	296,259
Prepaid expenses	2,613	14,850
Inventory	4,917	32,020
Total current assets	<u>1,523,281</u>	<u>945,132</u>
Non-current assets		
Beneficial interest held by others	84,204	52,434
Pledges receivable, net of current portion	148,440	297,705
Property and equipment, net	2,205,183	2,232,212
Total non-current assets	<u>2,437,827</u>	<u>2,582,351</u>
<b>Total assets</b>	<b><u>\$ 3,961,108</u></b>	<b><u>\$ 3,527,483</u></b>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 152,394	\$ 51,167
Accrued expenses	8,994	13,621
Deferred revenue	218,762	137,411
Long-term debt, current portion	7,096	37,333
Total current liabilities	<u>387,246</u>	<u>239,532</u>
Long-term liabilities		
Long-term debt, net of current portion	<u>21,436</u>	<u>852,667</u>
Net assets		
Without donor restrictions		
Undesignated	1,987,545	1,633,192
Designated by the Board for endowment	42,304	10,734
Total without donor restrictions	<u>2,029,849</u>	<u>1,643,926</u>
With donor restrictions		
Time-restricted for future periods	1,480,677	749,658
Perpetual in nature	41,900	41,700
Total with donor restrictions	<u>1,522,577</u>	<u>791,358</u>
Total net assets	<u>3,552,426</u>	<u>2,435,284</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 3,961,108</u></b>	<b><u>\$ 3,527,483</u></b>

See Accompanying Notes to the Financial Statements

**Ann Arbor Art Association**  
**Statement of Activities**  
**For the Sixteen Months Ended December 31, 2021**  
**(With Summarized Comparative Information for the Twelve Months Ended August 31, 2020)**

	Without Donor Restrictions	With Donor Restrictions	Total	
			Fiscal <b>2021</b>	Fiscal 2020
<b>Revenue, support and gains (losses)</b>				
Contributions and grants	\$ 847,043	\$ -	\$ 847,043	\$ 603,485
Capital campaign	341,923	1,116,756	1,458,679	741,691
Class fees	421,197	-	421,197	303,575
Art inventory sales	147,357	-	147,357	45,740
Facility rent revenue	57,138	-	57,138	37,077
Special events	35,552	-	35,552	45,694
In-kind revenue	88	-	88	1,869
Membership dues	11,429	-	11,429	6,020
Other revenue	7,794	-	7,794	3,794
Gain on sale of asset	-	-	-	10,269
Investment earnings	44,419	-	44,419	19,925
Net assets released from restrictions	385,537	(385,537)	-	-
<b>Total revenue, support and gains (losses)</b>	<b>2,299,477</b>	<b>731,219</b>	<b>3,030,696</b>	<b>1,819,139</b>
<b>Expenses</b>				
Program services	1,186,512	-	1,186,512	798,732
Supporting services				
Management and general	170,119	-	170,119	162,161
Fundraising	556,923	-	556,923	196,889
<b>Total supporting services</b>	<b>727,042</b>	<b>-</b>	<b>727,042</b>	<b>359,050</b>
<b>Total expenses</b>	<b>1,913,554</b>	<b>-</b>	<b>1,913,554</b>	<b>1,157,782</b>
<b>Change in net assets</b>	<b>385,923</b>	<b>731,219</b>	<b>1,117,142</b>	<b>661,357</b>
Net assets at beginning of year	1,643,926	791,358	2,435,284	1,773,927
Net assets at end of year	\$ 2,029,849	\$ 1,522,577	\$ 3,552,426	\$ 2,435,284

See Accompanying Notes to the Financial Statements

**Ann Arbor Art Association**  
**Statement of Functional Expenses**  
**For the Sixteen Months Ended December 31, 2021**  
**(With Summarized Comparative Information for the Twelve Months Ended August 31, 2020)**

	Program	Support Services		Total	
		Management and General	Fundraising	Fiscal 2021	Fiscal 2020
Salaries	\$ 402,635	\$ 39,681	\$ 113,739	\$ 556,055	\$ 435,772
Payroll taxes	33,814	2,954	8,627	45,395	35,995
Other employee benefits	47,256	8,057	21,248	76,561	68,041
Total payroll	<u>483,705</u>	<u>50,692</u>	<u>143,614</u>	<u>678,011</u>	<u>539,808</u>
Program supplies and services expense	515,497	49	15,482	531,028	278,674
Occupancy expenses	59,292	-	-	59,292	66,561
Office expenses	21,074	13,565	8,918	43,557	36,524
Marketing expenses	22,577	-	1,373	23,950	30,062
Professional fees	1,725	88,881	2,000	92,606	72,133
Insurance expenses	-	14,553	-	14,553	12,054
Interest expense	-	2,379	-	2,379	20,941
Depreciation expense	117,797	-	-	117,797	89,930
Capital campaign expense	-	-	385,536	385,536	76,753
Total expenses	<u>1,221,667</u>	<u>170,119</u>	<u>556,923</u>	<u>1,948,709</u>	<u>1,223,440</u>
Less expenses included in revenues in the statement of activities					
Cost of goods sold	<u>(35,155)</u>	<u>-</u>	<u>-</u>	<u>(35,155)</u>	<u>(65,658)</u>
Total expenses included in the expenses section on the statement of activities	<u>\$ 1,186,512</u>	<u>\$ 170,119</u>	<u>\$ 556,923</u>	<u>\$ 1,913,554</u>	<u>\$ 1,157,782</u>

See Accompanying Notes to the Financial Statements



**Ann Arbor Art Association**  
**Statement of Cash Flows**  
**For the Sixteen Months Ended December 31, 2021**  
**(With Summarized Comparative Information for the Twelve Months Ended August 31, 2020)**

	2021	2020
<b>Cash flows form operating activities</b>		
Change in net assets	\$ 1,117,142	\$ 661,357
Items not requiring cash		
Depreciation	117,797	89,930
Gain on disposal of property	-	(10,269)
Allowance/discount present value	2	5,400
Change in value of beneficial interest held by others	(31,770)	2,474
Change in operating assets and liabilities		
Pledges receivable	(88,618)	5,435
Prepaid expenses	12,237	41,828
Inventory	27,103	(585)
Accounts payable	101,227	27,551
Accrued expenses	(4,627)	(2,979)
Deferred revenue	81,351	67,655
	<b>1,331,844</b>	<b>887,797</b>
Net cash provided by operating activities		
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(90,768)	(89,781)
Proceeds from sales of other assets	-	857,969
	<b>(90,768)</b>	<b>768,188</b>
Net cash provided (used) by investing activities		
<b>Cash flows from financing activities</b>		
Loan proceeds	-	150,000
Loan payments	(861,468)	(1,364,500)
	<b>(861,468)</b>	<b>(1,214,500)</b>
Net cash used by financing activities		
Change in cash	379,608	441,485
Cash, beginning of year	<b>602,003</b>	160,518
<b>Cash, end of year</b>	<b>\$ 981,611</b>	<b>\$ 602,003</b>
<b><u>Supplemental Cash Flow Information</u></b>		
Cash paid for interest	<b>\$ 2,379</b>	<b>\$ 33,732</b>

See Accompanying Notes to the Financial Statements

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**December 31, 2021**  
**(With Summarized Comparative Information for 2020)**

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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, 2020 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 \$980,763 and of that amount \$480,763 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 December 31, 2021 and August 31, 2020.

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

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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.

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**December 31, 2021**  
**(With Summarized Comparative Information for 2020)**

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**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 \$88 and \$1,869 for the 16-month period ended December 31, 2021 and year ended August 31, 2020, respectively.

**Advertising**

The Organization expenses advertising costs the first time the advertising occurs. Advertising expense for the 16-month period ended December 31, 2021 and year August 31, 2020 was \$23,950 and \$30,062, 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.

**Change of Fiscal Year End**

The financial year end of the Organization was changed from August 31 to December 31. Accordingly, the current financial statements are prepared for 16 months from September 1, 2020 to December 31, 2021 and as a result, the comparative figures stated in the statement of activities, statement of functional expenses, statement of cash flows, and the related notes are not comparable.

**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 loan is recorded as a refundable advance until the conditions are met for revenue recognition. The conditions were met for revenue recognition during the year, and as such, forgiveness of the PPP loan of \$124,765 was granted by the SBA in August of 2021.

**Employee Retention Credit**

The Organization accounts for the ERC as a conditional contribution under FASB ASC 958-605 *Not-for-Profit Entities: Revenue Recognition*.

**Date of Management's Review**

Management has evaluated subsequent events through May 11, 2022, which is the date the financial statements were available to be issued.

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**December 31, 2021**  
**(With Summarized Comparative Information for 2020)**

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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 December 31, 2021 and August 31, 2020:

	2021	2020
Cash	\$ 981,611	\$ 602,003
Less: cash with donor restrictions	(798,097)	(155,694)
Financial assets available to meet cash needs for general expenditures within one year	\$ 183,514	\$ 446,309

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 16-month period ended December 31, 2021 and year ended August 31, 2020:

	2021	2020
Revenues from contracts with customers	\$ 615,535	\$ 392,494
Contributions and grants	847,043	603,485
Capital campaign	1,458,679	741,691
Facility rent revenue	57,138	37,077
In-kind revenue	88	1,869
Other revenue	7,794	12,329
Gain on sale of asset	-	10,269
Investment earnings	44,419	19,925
Total revenue	\$ 3,030,696	\$ 1,819,139

The revenue from contracts with customers for the 16-month period ended December 31, 2021 and year ended August 31, 2020 consists of:

	2021	2020
Revenue earned at a point in time	\$ 604,106	\$ 386,474
Revenue earned over time	11,429	6,020
Total revenue from contracts with customers	\$ 615,535	\$ 392,494

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

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
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related to these programs are not subject to the same amount of uncertainty as other programs. The educational 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.

Revenue earned over time consists of membership dues from art enthusiast in the Ann Arbor area. The overall economy of the state of Michigan impacts the Organization's number of members and ability to pay. The membership period is a year and therefore the performance obligation is typically satisfied over the period of time of the membership. Membership services include access to various resources, training and events, and networking opportunities. Most of the performance obligations are considered "stand-ready" performance obligations and are therefore recognized as revenue over the length of the membership. Membership revenue is recognized based on the months completed in a membership year because the member services are available all days of the year as well as the special events are offered approximately once per week each year.

The following summarizes contract assets and contract liabilities as of:

	December 31, 2021	August 31, 2020	September 1, 2019
Deferred revenue	<u>\$ 218,762</u>	<u>\$ 137,411</u>	<u>\$ 69,756</u>

There were no changes in judgments related to revenue recognition for the 16-month period ended December 31, 2021 and year ended August 31, 2020.

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.

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**December 31, 2021**  
**(With Summarized Comparative Information for 2020)**

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**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 \$84,204 and \$52,434 as of December 31, 2021 and August 31, 2020, 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 \$658,503 and \$503,336 at December 31, 2021 and August 31, 2020, 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 December 31, 2021 and August 31, 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Promises to give	\$ 718,473	\$ 629,859
Less discount to net present value	<u>(35,893)</u>	<u>(35,895)</u>
Net promises to give	<u>\$ 682,580</u>	<u>\$ 593,964</u>
Amounts due in		
2022	\$ 534,140	
2023	100,333	
2024	80,000	
2025	<u>4,000</u>	
Less discount to net present value	<u>(35,893)</u>	
Total	<u>\$ 682,580</u>	

The promises to give are recorded using the original discount rate of 2.88% and 3.00% in 2021 and 2020, respectively.

**Ann Arbor Art Association**  
**Notes to the Financial Statements**  
**December 31, 2021**  
**(With Summarized Comparative Information for 2020)**

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**Note 6 - Property and Equipment**

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

	2021	2020
Buildings	\$ 1,554,754	\$ 1,554,754
Building improvements	1,181,752	1,181,752
Equipment	71,773	196,335
Land	187,500	187,500
Construction in Progress	90,768	-
	3,086,547	3,120,341
Less: accumulated depreciation	(881,364)	(888,129)
Net property and equipment	\$ 2,205,183	\$ 2,232,212

**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 December 31,	
2022	\$ <u>1,731</u>

Expenses relating to the leases for both the 16-month period ended December 31, 2021 and the year ended August 31, 2020 were \$7,205 and \$6,598, respectively.

**Note 8 - Note Payable**

In August 2016, the Organization entered into an unsecured loan agreement with the Ann Arbor Area Community Foundation (AAACF) for \$40,000. The note included interest at the rate of 1% per annum. The balance was due in one lump sum on September 15, 2020 and paid in full. 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 were 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 was paid off early in October 2021. 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 proceeds outstanding as of December 31, 2021.

Interest expenses for the 16-month period ended December 31, 2021 and the year ended August 31, 2020 amounted to \$2,379 and \$20,941, respectively.



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Annual note maturities are scheduled as follows:

Year Ending December 31,	
2022	\$ 7,096
2023	7,294
2024	7,497
2025	6,645
Total long-term debt	\$ 28,532

**Note 9 - Net Assets with Donor Restrictions**

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

	2021	2020
Capital Campaign	\$ 1,480,677	\$ 749,658

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

	2021	2020
Endowment	\$ 41,900	\$ 41,700

**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 16-month period ended December 31, 2021 and year ended August 31, 2020:

	2021	2020
Satisfaction of purpose restrictions Capital Campaign	\$ 385,537	\$ 573,998

**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 December 31, 2021 and August 31, 2020, 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.

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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 December 31, 2021	Significant Unobservable inputs (Level 3)	Balance at August 31, 2020	Significant Unobservable inputs (Level 3)
Beneficial interest in the Ann Arbor Area Community Foundation Endowment	<u>\$ 84,204</u>	<u>\$ 84,204</u>	<u>\$ 52,434</u>	<u>\$ 52,434</u>

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

Balance at August 31, 2019	\$ 54,908
Change in value of endowment fund	<u>(2,474)</u>
Balance at August 31, 2020	52,434
Contributions	10,200
Earnings	24,242
Distributions	<u>(2,672)</u>
Balance at December 31, 2021	<u>\$ 84,204</u>

**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.

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**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 December 31, 2021 and August 31, 2020, 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.

The endowment net asset composition by type of fund as of December 31, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 41,900	\$ 41,900
Board designated endowment funds	42,304	-	42,304
Total funds	<u>\$ 42,304</u>	<u>\$ 41,900</u>	<u>\$ 84,204</u>

Changes in endowment net assets for the sixteen months ended December 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
As of August 31, 2020	\$ 10,734	\$ 41,700	\$ 52,434
Contributions	10,000	200	10,200
Investment income (loss)	24,242	-	24,242
Distributions	<u>(2,672)</u>	<u>-</u>	<u>(2,672)</u>
End of year	<u>\$ 42,304</u>	<u>\$ 41,900</u>	<u>\$ 84,204</u>

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>

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**Notes to the Financial Statements**  
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The 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)	(2,094)	-	(2,094)
Distributions	(2,580)	-	(2,580)
End of year	<u>\$ 10,734</u>	<u>\$ 41,700</u>	<u>\$ 52,434</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.

**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 \$0 and \$12,000 for the 16-month period ended December 31, 2021 and year ended August 31, 2020, respectively. There were no related party receivables or payables outstanding as of December 31, 2021 and August 31, 2020, respectively.

## **Supplementary Information**

**Ann Arbor Art Association**  
**Statement of Financial Position**  
**For the Twelve Months Ended December 31, 2021**  
**(With Summarized Comparative Information for the Twelve Months Ended December 31, 2020)**

	<u>2021</u>	<u>Compiled 2020</u>
<b>Assets</b>		
Current assets		
Cash	\$ 981,611	\$ 470,794
Pledges receivable, current portion	534,140	512,008
Prepaid expenses	2,613	-
Inventory	4,917	24,308
Total current assets	<u>1,523,281</u>	<u>1,007,110</u>
Non-current assets		
Beneficial interest held by others	84,204	62,889
Pledges receivable, net of current portion	148,440	297,705
Property and equipment, net	2,205,183	2,202,555
Total non-current assets	<u>2,437,827</u>	<u>2,563,149</u>
<b>Total assets</b>	<u><b>\$ 3,961,108</b></u>	<u><b>\$ 3,570,259</b></u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 152,394	\$ 86,715
Accrued expenses	8,994	6,943
Deferred revenue	218,762	50,402
Long-term debt, current portion	7,096	37,333
Total current liabilities	<u>387,246</u>	<u>181,393</u>
Long-term liabilities		
Long-term debt, net of current portion	<u>21,436</u>	<u>763,707</u>
Net assets		
Without donor restrictions		
Undesignated	1,348,063	1,825,267
Designated by the Board for endowment	42,304	10,734
Total without donor restrictions	<u>1,390,367</u>	<u>1,836,001</u>
With donor restrictions		
Time-restricted for future periods	2,120,159	749,658
Perpetual in nature	41,900	39,500
Total with donor restrictions	<u>2,162,059</u>	<u>789,158</u>
Total net assets	<u>3,552,426</u>	<u>2,625,159</u>
<b>Total liabilities and net assets</b>	<u><b>\$ 3,961,108</b></u>	<u><b>\$ 3,570,259</b></u>

**Ann Arbor Art Association**  
**Statement of Activities**  
**For the Twelve Months Ended December 31, 2021**  
**(With Summarized Comparative Information for the Twelve Months Ended December 31, 2020)**

	Without Donor Restrictions	With Donor Restrictions	Compiled	Compiled
			2021	2020
<b>Revenue, support and gains (losses)</b>				
Contributions and grants	\$ 583,010	\$ -	\$ 583,010	\$ 674,488
Capital campaign	-	1,130,816	1,130,816	551,724
Class fees	336,560	-	336,560	276,950
Art inventory sales	101,108	-	101,108	52,440
Facility rent revenue	31,403	-	31,403	31,435
Special events	35,552	-	35,552	33,414
In-kind revenue	88	-	88	49,433
Membership dues	8,204	-	8,204	5,700
Other revenue	6,758	-	6,758	3,181
Investment earnings	33,963	-	33,963	30,380
Net assets released from restrictions	(242,085)	242,085	-	-
Total revenue, support and gains (losses)	<u>894,561</u>	<u>1,372,901</u>	<u>2,267,462</u>	<u>1,709,145</u>
<b>Expenses</b>				
Program services	814,504	-	814,504	920,757
Supporting services				
Management and general	125,363	-	125,363	127,706
Fundraising	400,328	-	400,328	264,302
Total supporting services	<u>525,691</u>	<u>-</u>	<u>525,691</u>	<u>392,008</u>
Total expenses	<u>1,340,195</u>	<u>-</u>	<u>1,340,195</u>	<u>1,312,765</u>
<b>Change in net assets</b>	(445,634)	1,372,901	927,267	396,380
Net assets at beginning of year	<u>1,836,001</u>	<u>789,158</u>	<u>2,625,159</u>	<u>2,228,779</u>
Net assets at end of year	<u>\$ 1,390,367</u>	<u>\$ 2,162,059</u>	<u>\$ 3,552,426</u>	<u>\$ 2,625,159</u>

**Ann Arbor Art Association**  
**Statement of Functional Expenses**  
**For the Twelve Months Ended December 31, 2021**  
**(With Summarized Comparative Information for the Twelve Months Ended December 31, 2020)**

	Program	Support Services		Compiled	Compiled
		Management and General	Fundraising	2021 Total	2020 Total
Salaries	\$ 282,555	\$ 31,301	\$ 106,340	\$ 420,196	\$ 407,748
Payroll taxes	24,725	2,339	8,195	35,259	33,387
Other employee benefits	31,336	6,160	16,780	54,276	67,881
Total payroll	<u>338,616</u>	<u>39,800</u>	<u>131,315</u>	<u>509,731</u>	<u>509,016</u>
Program supplies and services expense	335,087	-	12,188	347,275	366,113
Occupancy expenses	49,100	-	-	49,100	42,611
Office expenses	16,368	10,118	5,561	32,047	35,166
Marketing expenses	12,139	-	7,179	19,318	16,634
Professional fees	1,725	64,199	2,000	67,924	76,771
Insurance expenses	-	9,261	-	9,261	12,963
Interest expense	-	1,985	-	1,985	7,398
Depreciation expense	88,724	-	-	88,724	89,041
Capital campaign expense	-	-	242,085	242,085	184,017
Total expenses	<u>841,759</u>	<u>125,363</u>	<u>400,328</u>	<u>1,367,450</u>	<u>1,339,730</u>
Less expenses included in revenues in the statement of activities					
Cost of goods sold	<u>(27,255)</u>	<u>-</u>	<u>-</u>	<u>(27,255)</u>	<u>(26,965)</u>
Total expenses included in the expenses section on the statement of activities	<u>\$ 814,504</u>	<u>\$ 125,363</u>	<u>\$ 400,328</u>	<u>\$ 1,340,195</u>	<u>\$ 1,312,765</u>