

Ann Arbor Art Association

Financial Statements

December 31, 2022 (With Summarized Comparative

Information for 2021)



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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, 2022, and the related statements of activities, functional expenses, and cash flows for the year 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, 2022, 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.

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.

Emphasis of a Matter – Restatement

As discussed in note 13 to the financial statements, the Organization discovered a misstatement with promises to give reported as of December 31, 2021. Accordingly, these amounts have been restated in the 2022 financial statements now presented. Previously reported change in net assets has not been impacted by this restatement. Our opinion is not modified with respect to this matter.

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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 11, 2022. In our opinion, the summarized comparative information presented herein, with the exception of the restatement discussed in note 13, as of and for the sixteen months ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
June 9, 2023

Ann Arbor Art Association
Statement of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>Restated 2021</u>
Assets		
Current assets		
Cash	\$ 337,742	\$ 981,611
Promises to give, current portion	262,917	469,835
Prepaid expenses	5,931	2,613
Inventory	<u>8,964</u>	<u>4,917</u>
Total current assets	<u>615,554</u>	<u>1,458,976</u>
Non-current assets		
Beneficial interest held by others	70,994	84,204
Promises to give, net of current portion	217,607	148,440
Property and equipment, net	<u>3,347,018</u>	<u>2,205,183</u>
Total non-current assets	<u>3,635,619</u>	<u>2,437,827</u>
Total assets	<u>\$ 4,251,173</u>	<u>\$ 3,896,803</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 98,139	\$ 152,394
Accrued expenses	10,843	8,994
Deferred revenue	255,482	218,762
Long-term debt, current portion	<u>18,803</u>	<u>7,096</u>
Total current liabilities	<u>383,267</u>	<u>387,246</u>
Long-term liabilities		
Long-term debt, net of current portion	<u>10,503</u>	<u>21,436</u>
Net assets		
Without donor restrictions		
Undesignated	3,066,223	1,923,240
Designated by the Board for endowment	<u>28,894</u>	<u>42,304</u>
Total without donor restrictions	<u>3,095,117</u>	<u>1,965,544</u>
With donor restrictions		
Time-restricted for future periods	720,186	1,480,677
Perpetual in nature	<u>42,100</u>	<u>41,900</u>
Total with donor restrictions	<u>762,286</u>	<u>1,522,577</u>
Total net assets	<u>3,857,403</u>	<u>3,488,121</u>
Total liabilities and net assets	<u>\$ 4,251,173</u>	<u>\$ 3,896,803</u>

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Statement of Activities
For the Year Ended December 31, 2022
(With Summarized Comparative Information for the Sixteen Months Ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	Restated 2021
Revenue, support and gains (losses)				
Contributions and grants	\$ 358,444	\$ 812	\$ 359,256	\$ 782,738
Capital campaign	-	522,199	522,199	1,458,679
Class fees	571,883	-	571,883	421,197
Art inventory sales	76,189	-	76,189	147,357
Facility rent revenue	24,360	-	24,360	57,138
Special events	97,328	-	97,328	35,552
Contributions of nonfinancial assets	-	-	-	88
Membership dues	10,645	-	10,645	11,429
Other revenue	1,615	-	1,615	7,794
Loss on sale of asset	(43,971)	-	(43,971)	-
Investment earnings	11,086	-	11,086	44,419
Net assets released from restrictions	1,283,302	(1,283,302)	-	-
Total revenue, support and gains (losses)	2,390,881	(760,291)	1,630,590	2,966,391
Expenses				
Program services	964,399	-	964,399	1,186,512
Supporting services				
Management and general	148,040	-	148,040	170,119
Fundraising	148,869	-	148,869	556,923
Total supporting services	296,909	-	296,909	727,042
Total expenses	1,261,308	-	1,261,308	1,913,554
Change in net assets	1,129,573	(760,291)	369,282	1,052,837
Net assets beginning of year, as restated	1,965,544	1,522,577	3,488,121	2,435,284
Net assets at end of year	\$ 3,095,117	\$ 762,286	\$ 3,857,403	\$ 3,488,121

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Statement of Functional Expenses
For the Year Ended December 31, 2022
(With Summarized Comparative Information for the Sixteen Months Ended December 31, 2021)

	Program	Support Services		Total	
		Management and General	Fundraising	2022	2021
Salaries	\$ 361,659	\$ 28,491	\$ 77,480	\$ 467,630	\$ 556,055
Payroll taxes	30,232	2,695	5,981	38,908	45,395
Other employee benefits	39,210	11,575	12,168	62,953	76,561
Total payroll	<u>431,101</u>	<u>42,761</u>	<u>95,629</u>	<u>569,491</u>	<u>678,011</u>
Art supplies and services expense	311,606	80	23,859	335,545	531,028
Occupancy expenses	88,256	125	-	88,381	59,292
Office expenses	21,774	11,089	5,291	38,154	43,557
Marketing expenses	17,281	-	7,491	24,772	23,950
Professional fees	13,517	83,340	2,213	99,070	92,606
Insurance expenses	-	9,774	-	9,774	14,553
Interest expense	-	871	-	871	2,379
Depreciation expense	97,497	-	-	97,497	117,797
Capital campaign expense	-	-	14,386	14,386	385,536
Total expenses	<u>981,032</u>	<u>148,040</u>	<u>148,869</u>	<u>1,277,941</u>	<u>1,948,709</u>
Less expenses included in revenues in the statement of activities					
Cost of goods sold	<u>(16,633)</u>	<u>-</u>	<u>-</u>	<u>(16,633)</u>	<u>(35,155)</u>
Total expenses included in the expenses section on the statement of activities	<u>\$ 964,399</u>	<u>\$ 148,040</u>	<u>\$ 148,869</u>	<u>\$ 1,261,308</u>	<u>\$ 1,913,554</u>

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Statement of Cash Flows
For the Year Ended December 31, 2022
(With Summarized Comparative Information for the Sixteen Months Ended December 31, 2021)

	2022	Restated 2021
Cash flows form operating activities		
Change in net assets	\$ 369,282	\$ 1,052,837
Items not requiring cash		
Depreciation	97,497	117,797
Loss on disposal of property	43,971	-
Discount present value	(15,000)	2
Change in value of beneficial interest held by others	13,210	(31,770)
Change in operating assets and liabilities		
Promises to give	152,751	(24,313)
Prepaid expenses	(3,318)	12,237
Inventory	(4,047)	27,103
Accounts payable	(54,255)	101,227
Accrued expenses	2,623	(4,627)
Deferred revenue	36,720	81,351
Net cash provided by operating activities	639,434	1,331,844
Cash flows from investing activities		
Purchases of property and equipment	(1,283,303)	(90,768)
Cash flows from financing activities		
Loan payments	-	(861,468)
Change in cash	(643,869)	379,608
Cash, beginning of year	981,611	602,003
Cash, end of year	\$ 337,742	\$ 981,611
<u>Supplemental Cash Flow Information</u>		
Cash paid for interest	\$ 871	\$ 2,379

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Notes to the Financial Statements
December 31, 2022
(With Summarized Comparative Information for 2021)

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 sixteen months ended December 31, 2021 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 \$334,491 and of that amount \$82,297 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, 2022 and December 31, 2021.

Ann Arbor Art Association
Notes to the Financial Statements
December 31, 2022
(With Summarized Comparative Information for 2021)

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, 2022
(With Summarized Comparative Information for 2021)

Donated Services and Goods

The Organization records the value of donated goods as contributions using estimated fair values at the date of receipt. The Organization's policy is to utilize, rather than monetize, donated services and goods.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Advertising

The Organization expenses advertising costs the first time the advertising occurs. Advertising expense for the year ended December 31, 2022 and 16-month period December 31, 2021 was \$24,772 and \$23,950, 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 in 2021. Accordingly, the current financial statements are prepared for the year ended December 31, 2022 and the comparative information is prepared for the 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.

Date of Management's Review

Management has evaluated subsequent events through June 9, 2023, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

The Organization adopted FASB Topic 842, *Leases*, as of the beginning of the year ended December 31, 2022. This has been adopted using the modified retrospective approach.

The Organization adopted FASB Topic, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*, as of the beginning of the year ended December 31, 2022. This was applied on a retrospective basis and resulted in no changes in net assets.

Ann Arbor Art Association
Notes to the Financial Statements
December 31, 2022
(With Summarized Comparative Information for 2021)

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, 2022 and December 31, 2021:

	2022	Restated 2021
	<u> </u>	<u> </u>
Cash	\$ 337,742	\$ 981,611
Less: cash with donor restrictions	<u>(239,662)</u>	<u>(798,097)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 98,080</u>	<u>\$ 183,514</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 - Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended December 31, 2022 and 16-month period ended December 31, 2021:

	2022	Restated 2021
	<u> </u>	<u> </u>
Revenues from contracts with customers	\$ 712,074	\$ 615,535
Contributions and grants	359,256	782,738
Capital campaign	522,199	1,458,679
Facility rent revenue	24,360	57,138
Contributions of nonfinancial assets	-	88
Other revenue	1,615	7,794
Investment earnings	<u>11,086</u>	<u>44,419</u>
Total revenue	<u>\$ 1,630,590</u>	<u>\$ 2,966,391</u>

The revenue from contracts with customers for the year ended December 31, 2022 and 16-month period ended December 31, 2021 consists of:

	2022	Restated 2021
	<u> </u>	<u> </u>
Revenue earned at a point in time	\$ 701,429	\$ 604,106
Revenue earned over time	<u>10,645</u>	<u>11,429</u>
Total revenue from contracts with customers	<u>\$ 712,074</u>	<u>\$ 615,535</u>

Ann Arbor Art Association
Notes to the Financial Statements
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(With Summarized Comparative Information for 2021)

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 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, 2022	Restated December 31, 2021	August 31, 2020
Deferred revenue	<u>\$ 255,482</u>	<u>\$ 218,762</u>	<u>\$ 137,411</u>

Ann Arbor Art Association
Notes to the Financial Statements
December 31, 2022
(With Summarized Comparative Information for 2021)

There were no changes in judgments related to revenue recognition for the year ended December 31, 2022 and the sixteen months ended December 31, 2021.

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 \$70,994 and \$84,204 as of December 31, 2022 and December 31, 2021, 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 \$552,300 and \$658,503 at December 31, 2022 and December 31, 2021, 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, 2022, and December 31, 2021, consist of the following:

	2022	2021
Promises to give	\$ 531,417	\$ 654,168
Less discount to net present value	(50,893)	(35,893)
Net promises to give	\$ 480,524	\$ 618,275
Amounts due in		
2023	\$ 262,917	
2024	86,500	
2025	71,500	
2026	60,500	
2027	50,000	
Less discount to net present value	(50,893)	
Total	\$ 480,524	

The promises to give are recorded using the original discount rate of 5.25% and 2.88% in 2022 and 2021, respectively.

Ann Arbor Art Association
Notes to the Financial Statements
December 31, 2022
(With Summarized Comparative Information for 2021)

Note 6 - Property and Equipment

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

	2022	2021
Buildings	\$ 1,554,754	\$ 1,554,754
Building improvements	1,999,078	1,181,752
Equipment	63,553	71,773
Land	187,500	187,500
Construction in Progress	-	90,768
	3,804,885	3,086,547
Less: accumulated depreciation	(457,867)	(881,364)
Net property and equipment	\$ 3,347,018	\$ 2,205,183

Note 7 – Line of Credit

The Organization has a secured line of credit arrangement totaling \$100,000. This arrangement provides for borrowing amounts for short-term use at prime plus 3.25%. While the line of credit was available for use, there were no borrowings during the year.

Note 8 – Note Payable

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 of \$29,306 and \$28,532 as of December 31, 2022 and 2021, respectively.

Interest expenses for the year ended December 31, 2022 and the sixteen months ended December 31, 2021 amounted to \$871 and \$2,379, respectively.

Annual note maturities are scheduled as follows:

Year Ending December 31,	
2023	\$ 18,803
2024	7,497
2025	3,006
Total long-term debt	\$ 29,306

Ann Arbor Art Association
Notes to the Financial Statements
December 31, 2022
(With Summarized Comparative Information for 2021)

Note 9 - Net Assets with Donor Restrictions

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

	2022	2021
Capital Campaign	\$ 720,186	\$ 1,480,677

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

	2022	2021
Endowment	\$ 42,100	\$ 41,900

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 year ended December 31, 2022 and sixteen months ended December 31, 2021:

	2022	Restated 2021
Satisfaction of purpose restrictions Capital Campaign	\$ 1,283,302	\$ 385,537

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, 2022 and December 31, 2021, 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.

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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, 2022	Significant Unobservable inputs (Level 3)	Balance at December 31, 2021	Significant Unobservable inputs (Level 3)
Beneficial interest in the Ann Arbor Area Community Foundation Endowment	\$ 70,994	\$ 70,994	\$ 84,204	\$ 84,204

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

Balance at August 31, 2020	\$ 52,434
Change in value of endowment fund	<u>31,770</u>
Balance at December 31, 2021	84,204
Earnings	(10,280)
Distributions	<u>(2,930)</u>
Balance at December 31, 2022	<u>\$ 70,994</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.

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, 2022 and December 31, 2021, 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 December 31, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 42,100	\$ 42,100
Board designated endowment funds	28,894	-	28,894
Total funds	<u>\$ 28,894</u>	<u>\$ 42,100</u>	<u>\$ 70,994</u>

Changes in endowment net assets for the year ended December 31, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 42,304	\$ 41,900	\$ 84,204
Contributions	-	200	200
Investment income (loss)	(10,480)	-	(10,480)
Distributions	(2,930)	-	(2,930)
End of year	<u>\$ 28,894</u>	<u>\$ 42,100</u>	<u>\$ 70,994</u>

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
Unrestricted endowment funds	42,304	-	42,304
Total funds	<u>\$ 42,304</u>	<u>\$ 41,900</u>	<u>\$ 84,204</u>

The 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	(2,672)	-	(2,672)
End of year	<u>\$ 42,304</u>	<u>\$ 41,900</u>	<u>\$ 84,204</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 – Prior Period Adjustment

During the 2022 financial reporting process, it was determined that \$63,405 of promises to give were incorrectly recognized for the year ended December 31, 2021. In order to correct this reporting error, a prior period adjustment has been made to decrease promises to give and contributions by \$63,405 in the 2021 comparative financial statements. Change in net assets decreased by this correction as well.