Ann Arbor Art Association

Financial Statements

December 31, 2023

(With Summarized Comparative Information for 2022)

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BUSINESS SUCCESS PARTNERS

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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, 2023, 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, 2023, 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.

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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 9, 2023. In our opinion, the summarized comparative information presented herein, as of and for period ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
April 29, 2024

Ann Arbor Art Association
Statement of Financial Position
December 31, 2023
(With Summarized Comparative Information for 2022)

	2023	2022
Assets		
Current assets		
Cash	**$ 328,400**	$ 337,742
Accounts receivable	**20,313**	-
Promises to give, current portion	**134,208**	262,917
Prepaid expenses	**609**	5,931
Inventory	**6,587**	8,964
Total current assets	**490,117**	615,554
Non-current assets		
Beneficial interest held by others	**78,529**	70,994
Promises to give, net of current portion	**212,263**	217,607
Property and equipment, net	**3,268,586**	3,347,018
Right of use asset - finance lease, net	**24,023**	-
Total non-current assets	**3,583,401**	3,635,619
Total assets	**$ 4,073,518**	$ 4,251,173
Liabilities and Net Assets		
Current liabilities		
Accounts payable	**$ 41,107**	$ 98,139
Accrued expenses	**11,951**	10,843
Deferred revenue	**150,434**	255,482
Long-term debt, current portion	**7,010**	18,803
Finance lease obligation, current portion	**4,669**	-
Total current liabilities	**215,171**	383,267
Long-term liabilities		
Long-term debt, net of current portion	**14,737**	10,503
Finance lease obligation, net of current portion	**19,483**	-
Total long-term liabilities	**34,220**	10,503
Net assets		
Without donor restrictions		
Undesignated	**3,144,705**	3,066,423
Designated by the Board for endowment	**36,229**	28,694
Total without donor restrictions	**3,180,934**	3,095,117
With donor restrictions		
Time-restricted for future periods	**600,893**	720,186
Perpetual in nature	**42,300**	42,100
Total with donor restrictions	**643,193**	762,286
Total net assets	**3,824,127**	3,857,403
Total liabilities and net assets	**$ 4,073,518**	$ 4,251,173

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Statement of Activities
For the Year Ended December 31, 2023
(With Summarized Comparative Information for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Total 2022
Revenue, support and gains (losses)				
Contributions and grants	$ 525,876	$ -	**$ 525,876**	$ 370,342
Capital campaign	37,743	-	**37,743**	522,199
Class fees	730,994	-	**730,994**	571,883
Art inventory sales	96,695	-	**96,695**	76,189
Facility rent revenue	28,320	-	**28,320**	24,360
Special events	52,167	-	**52,167**	97,328
Membership dues	15,877	-	**15,877**	10,645
Other revenue	5,665	-	**5,665**	1,615
Loss on sale of asset	(115)	-	**(115)**	(43,971)
Net assets released from restrictions	119,093	(119,093)	**-**	-
Total revenue, support and gains (losses)	1,612,315	(119,093)	**1,493,222**	1,630,590
Expenses				
Program services	1,168,134	-	**1,168,134**	964,399
Supporting services				
Management and general	202,337	-	**202,337**	148,040
Fundraising	156,027	-	**156,027**	148,869
Total supporting services	358,364	-	**358,364**	296,909
Total expenses	1,526,498	-	**1,526,498**	1,261,308
Change in net assets	85,817	(119,093)	**(33,276)**	369,282
Net assets beginning of year	3,095,117	762,286	**3,857,403**	3,488,121
Net assets at end of year	$ 3,180,934	$ 643,193	**$ 3,824,127**	$ 3,857,403

See Accompanying Notes to the Financial Statements

Ann Arbor Art Association
Statement of Functional Expenses
For the Year Ended December 31, 2023
(With Summarized Comparative Information for 2022)

		Support Services		Total	
	Program	Management and General	Fundraising	**2023**	2022
Salaries	$ 455,922	$ 48,697	$ 82,654	**$ 587,273**	$ 467,630
Payroll taxes	40,011	4,564	6,263	**50,838**	38,908
Other employee benefits	49,139	13,540	7,519	**70,198**	62,953
Total payroll	545,072	66,801	96,436	**708,309**	569,491
Art supplies and services expense	393,407	5	14,255	**407,667**	335,545
Occupancy expenses	89,769	1,367	-	**91,136**	88,381
Office expenses	17,617	17,470	5,649	**40,736**	38,154
Marketing expenses	12,067	-	3,586	**15,653**	24,772
Professional fees	2,281	91,336	2,900	**96,517**	99,070
Travel expenses	800	1,100	10,148	**12,048**	-
Insurance expenses	-	10,351	-	**10,351**	9,774
Interest expense	-	1,667	-	**1,667**	871
Miscellaneous expense	2,971	-	-	**2,971**	-
Depreciation expense	120,971	-	-	**120,971**	97,497
Bad debt expense	200	12,240	-	**12,440**	-
Capital campaign expense	-	-	23,053	**23,053**	14,386
Total expenses	1,185,155	202,337	156,027	**1,543,519**	1,277,941
Less expenses included in revenues in the statement of activities					
Cost of goods sold	(17,021)	-	-	**(17,021)**	(16,633)
Total expenses included in the expenses section on the statement of activities	$ 1,168,134	$ 202,337	$ 156,027	**$ 1,526,498**	$ 1,261,308

Ann Arbor Art Association

Statement of Cash Flows

For the Year Ended December 31, 2023

(With Summarized Comparative Information for 2022)

	2023	2022
Cash flows form operating activities		
Change in net assets	**$ (33,276)**	$ 369,282
Items not requiring cash		
Depreciation	**120,971**	97,497
Bad debt	**12,440**	-
Loss on disposal of property	**115**	43,971
Discount present value	**1,656**	(15,000)
Change in value of beneficial interest held by others	**(7,535)**	13,210
Change in operating assets and liabilities		
Accounts receivable	**(20,313)**	-
Promises to give	**119,957**	152,751
Prepaid expenses	**5,322**	(3,318)
Inventory	**2,377**	(4,047)
Accounts payable	**(57,032)**	(54,255)
Accrued expenses	**1,108**	2,623
Deferred revenue	**(105,048)**	36,720
Net cash provided by operating activities	**40,742**	639,434
Cash flows from investing activities		
Purchases of property and equipment	**(41,390)**	(1,283,303)
Cash flows from financing activities		
Payments on long-term debt	**(7,559)**	-
Payments on finance lease obligations	**(1,135)**	-
Net cash used by financing activities	**(8,694)**	-
Change in cash	**(9,342)**	(643,869)
Cash, beginning of year	**337,742**	981,611
Cash, end of year	**$ 328,400**	$ 337,742
Supplementary information		
Interest paid	**$ 1,667**	$ 871
Supplemental schedule of non-cash investing and financing activities		
Equipment acquired through finance leases	**$ 20,747**	$ -

See Accompanying Notes to the Financial Statements

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:

<u>Net assets without donor restrictions</u> – 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.

<u>Net assets with donor restrictions</u> – 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 those 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 ended December 31, 2022 is presented for comparative purposes is not intended to be a complete financial statement presentation. Certain items were reclassified to report their purpose more accurately.

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 $307,987 and of that amount $56,043 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.

Trade accounts receivable are stated net of an allowance for credit losses. The Organization estimates the allowance based on an analysis of specific accounts, taking into consideration the age of past due accounts, an assessment of ability to pay, current conditions, and reasonable and supportable forecasts. Individual receivables are written off as a charge to the allowance for credit losses when, in management's estimation, it is probable that the receivable is worthless.

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.

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.

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.

Leases
The Organization leases certain equipment. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to

direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. Finance leases are contracts that have characteristics that make them similar to the purchase of the underlying asset. Operating leases are contracts that allow for the use of the underlying asset but there is no ownership transfer at the end of the lease.

Right of use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Right of use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that option will be exercised. The weighted-average discount rate is based on the discount rate implicit in the lease. The Organization has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Organization has applied the risk-free rate option to the building and office equipment classes of assets.

Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Finance lease expense is allocated between the amortization of the right of use asset and interest expense.

The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices. For certain equipment leases, like copiers, the Company accounts for the lease and non-lease components as a single lease.

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.

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, 2023 and December 31, 2022 was $16,653 and $24,772, 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.

Adoption of New Accounting Standard
The Organization adopted FASB Topic 326, *Financial Instruments – Credit Losses,* as of the beginning of the year ended December 31, 2023. FASB Topic 326 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. This has been adopted prospectively using the modified retrospective approach, which restates the balances as of the date of adoption. Beginning net assets for the year ended December 31, 2023 did not change as a result of this standard.

Date of Management's Review
Management has evaluated subsequent events through April 29, 2024, which is the date the financial statements were available to be issued.

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, 2023 and 2022:

	2023	2022
Cash and cash equivalents	$ 328,400	$ 337,742
Accounts receivable	20,313	-
Promises to give	346,471	480,524
Total financial assets - end of year	695,184	818,266
Less: Financial assets unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(600,893)	(720,186)
Financial assets available to meet cash needs for general expenditures within one year	$ 94,291	$ 98,080

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 - Promises to Give

Unconditional promises to give as of December 31, 2023 and 2022, consist of the following:

	2023	2022
Promises to give	$ 395,708	$ 459,518
Less discount to net present value	(49,237)	(50,893)
Net promises to give	$ 346,471	$ 408,625

Amounts due in	
2024	$ 134,208
2025	95,500
2026	80,500
2027	75,500
2028	10,000
Less discount to net present value	(49,237)
Total	$ 346,471

The promises to give are recorded using the original discount rate of 5.25% and 2.88% in 2023 and 2022, respectively.

Note 4 - Conditional Promises to Give

During fiscal 2023, the Organization received two grants from the Michigan Arts and Culture Council that are conditional promises of $31,147. Payments of the grants is contingent upon the Organization's grant expenses in accordance with 2 CFR 200.

Note 5 - Property and Equipment

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

	2023	2022
Buildings	$ 3,595,222	$ 3,553,832
Equipment	62,569	63,553
Land	187,500	187,500
	3,845,291	3,804,885
Less: accumulated depreciation	(576,705)	(457,867)
Net property and equipment	$ 3,268,586	$ 3,347,018

Note 6 - Line of Credit

The Organization has a secured line of credit arrangement totaling $100,000 with a maturity date of August 5, 2025. 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.

The Organization has a secured a construction line of credit arrangement totaling $4,000,000 with a maturity date of September 16, 2025. This arrangement provides for borrowing amounts for short-term use at 8.25%. While the line of credit was available for use, there were no borrowings during the year.

Note 7 - Leases

The Organization leases equipment under a long-term non-cancelable finance lease agreement. The lease expires in September 2028. The Organization includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis. The short-term lease costs do not reflect the ongoing short-term lease commitments.

Total lease costs for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Finance lease cost:		
Interest expense	$ 273	$ -
Amortization of right-of-use assets	1,264	-
Total lease costs	$ 1,537	$ -

The following table summarizes the supplemental cash flow information for the years ended December 31, 2023 and 2022:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ 273	$ -
Financing cash flows from finance leases	1,135	-

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

	2023	2022
Weighted-average remaining lease term in years:		
Finance leases	4.70	-
Weighted-average discount rate:		
Finance leases	4.45%	-

The future minimum lease payments under noncancelable operating and finance leases with terms greater than one year are listed below as of December 31, 2023:

	Finance
2024	$ 5,631
2025	5,631
2026	5,631
2027	5,631
2028	4,222
Total lease payments	26,746
Less interest	(2,594)
Present value of lease liabilities	$ 24,152

Note 8 - Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended December 31, 2023 and 2022:

	2023	2022
Revenues from contracts with customers	$ 895,733	$ 712,074
Contributions and grants	525,876	370,342
Capital campaign	37,743	522,199
Facility rent revenue	28,320	24,360
Other revenue	5,665	1,615
Loss on sale of asset	(115)	-
Total revenue	$ 1,493,222	$ 1,630,590

The revenue from contracts with customers for the year ended December 31, 2023 and 2022 consists of:

	2023	2022
Revenue earned at a point in time	$ 879,856	$ 701,429
Revenue earned over time	15,877	10,645
Total revenue from contracts with customers	$ 895,733	$ 712,074

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 withdraw from the program more 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 enthusiasts 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, 2023	December 31, 2022	December 31, 2021
Accounts receivable	$ 20,313	$ -	$ -
Deferred revenue	$ 150,434	$ 255,482	$ 218,762

There were no changes in judgments related to revenue recognition for the years ended December 31, 2023 and 2022.

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 9 - 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 $78,529 and $70,994 as of December 31, 2023 and 2022, 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 $608,450 and $552,300 at December 31, 2023 and 2022, 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 10 - Note Payable

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 $21,747 and $29,306 as of December 31, 2023 and 2022, respectively.

Interest expenses for the year ended December 31, 2023 and 2022 amounted to $707 and $871, respectively.

Annual note maturities are scheduled as follows:

Year Ending December 31,	
2024	$ 7,010
2025	7,379
2026	7,358
Total long-term debt	$ 21,747

Note 11 - Net Assets with Donor Restrictions

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

	2023	2022
Capital Campaign	$ 600,893	$ 720,186

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

	2023	2022
Endowment	$ 42,300	$ 42,100

Note 12 - 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, 2023 and 2022:

	2023	2022
Satisfaction of time and purpose restrictions		
Capital Campaign	$ 119,093	$ 1,283,302

Note 13 - 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, 2023 and 2022 and the valuation techniques used by the Organization to determine those fair values.

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

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

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

There are only level 3 inputs.

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

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

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

	December 31, 2023		December 31, 2022	
	Balance	Significant Unobservable inputs (Level 3)	Balance	Significant Unobservable inputs (Level 3)
Beneficial interest in the Ann Arbor Area Community Foundation Endowment	$ 78,529	$ 78,529	$ 70,994	$ 70,994

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

Balance at December 31, 2021	$ 84,204
Earnings	(10,280)
Distributions	(2,930)
Change in value of endowment fund	(13,210)
Balance at December 31, 2022	70,994
Earnings	11,522
Distributions	(3,987)
Change in value of endowment fund	7,535
Balance at December 31, 2023	$ 78,529

Note 14 - 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, 2023 and 2022, 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, 2023 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 42,300	$ 42,300
Board designated endowment funds	36,229	-	36,229
Total funds	$ 36,229	$ 42,300	$ 78,529

Changes in endowment net assets for the year ended December 31, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	$ 28,694	$ 42,100	$ 70,794
Contributions	-	200	200
Investment income	11,522	-	11,522
Distributions	(3,987)	-	(3,987)
End of year	$ 36,229	$ 42,300	$ 78,529

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
Unrestricted endowment funds	28,694	-	28,694
Total funds	$ 28,694	$ 42,100	$ 70,794

The 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 loss	(10,480)	-	(10,480)
Distributions	(2,930)	-	(2,930)
End of year	$ 28,894	$ 42,100	$ 70,994

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.