

Ann Arbor Summer Festival, Inc.

Financial Statements

September 30, 2020

(With Summarized Comparative Information for 2019)



Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Financial Position	3
Statement of Activities	5
Statement of Cash Flows	6
Statement of Functional Expenses	7
Notes to the Financial Statements	8



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Independent Auditors' Report

Management and the Board of Directors
Ann Arbor Summer Festival, Inc.
Ann Arbor, MI

We have audited the accompanying financial statements of Ann Arbor Summer Festival, Inc. which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor Summer Festival, Inc. as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, Ann Arbor Summer Festival, Inc. changed its method of accounting for revenue recognition in 2020 as required by the provisions of FASB Accounting Standards Update 2014-09 *Revenue from Contracts with Customers*, and changed its method of accounting for contributions in 2020 as required by the provisions of FASB Accounting Standards Update 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, and changed its method of accounting for restricted cash in 2020 as required by the provisions of FASB Accounting Standards Update 2016-18 *Statement of Cash Flows – Restricted Cash*. Our opinion is not modified with respect to those matters.

Report on Summarized Comparative Information

We have previously audited the Ann Arbor Summer Festival, Inc. 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 29, 2020. In our opinion, the summarized comparative information presented herein, with the exception of the matter discussed in Note 1, as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
January 19, 2021

Ann Arbor Summer Festival, Inc.
Statement of Financial Position
September 30, 2020
(With Summarized Comparative Information for 2019)

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 194,800	\$ 103,980
Grants receivable	4,500	5,988
Promises to give	51,809	51
Prepaid expenses	3,069	5,228
Total current assets	254,178	115,247
Noncurrent assets		
Restricted cash	950	150
Restricted investments	303,386	252,325
Property and equipment, net	8,082	13,117
Total noncurrent assets	312,418	265,592
Total assets	\$ 566,596	\$ 380,839

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Statement of Financial Position
September 30, 2020
(With Summarized Comparative Information for 2019)

	2020	2019
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 8,313	\$ 49,820
Accrued expenses	7,657	11,333
Deferred revenue	31,250	-
Advance refunding	10,000	-
Long-term debt, current portion	56,080	-
Total current liabilities	113,300	61,153
Long-term liabilities		
Long-term debt, net of current portion	36,252	-
Total liabilities	149,552	61,153
Net assets		
Without donor restrictions		
Undesignated	1,662	33,690
Endowment Earnings	73,108	47,362
Total without donor restrictions	74,770	81,052
With donor restrictions		
Purpose restrictions	24,526	33,521
Time-restricted for future periods	86,520	-
Endowment Corpus	231,228	205,113
Total with donor restrictions	342,274	238,634
Total net assets	417,044	319,686
Total liabilities and net assets	\$ 566,596	\$ 380,839

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Statement of Activities
For the Year Ended September 30, 2020
(With Summarized Comparative Information for 2019)

	Without donor restrictions	With donor restrictions	2020	2019
Revenue, support and gains (losses)				
Ticketed series sales	\$ 3,425	\$ -	\$ 3,425	\$ 170,047
Top of the Park sales	184	-	184	348,354
Contributions	64,518	142,640	207,158	293,078
Sponsorships	180,864	-	180,864	213,950
Grants	185,472	-	185,472	143,320
In-kind contributions	20,000	-	20,000	160,423
Advertising sales	-	-	-	3,500
Other revenue	1,802	-	1,802	3,238
Interest and dividend income	6,313	-	6,313	6,946
Realized gain on investments	964	-	964	1,701
Unrealized gain on investments	19,746	-	19,746	5,701
Net assets released from restrictions	39,000	(39,000)	-	-
Total revenue, support and gains (losses)	<u>522,288</u>	<u>103,640</u>	<u>625,928</u>	<u>1,350,258</u>
Expenses				
Program services	<u>259,973</u>	<u>-</u>	<u>259,973</u>	<u>1,080,948</u>
Support				
Management and general	155,787	-	155,787	286,801
Fundraising	<u>112,810</u>	<u>-</u>	<u>112,810</u>	<u>99,508</u>
Total support	<u>268,597</u>	<u>-</u>	<u>268,597</u>	<u>386,309</u>
Total expenses	<u>528,570</u>	<u>-</u>	<u>528,570</u>	<u>1,467,257</u>
Change in net assets	(6,282)	103,640	97,358	(116,999)
Net assets - beginning of year	<u>81,052</u>	<u>238,634</u>	<u>319,686</u>	<u>436,685</u>
Net assets - end of year	<u>\$ 74,770</u>	<u>\$ 342,274</u>	<u>\$ 417,044</u>	<u>\$ 319,686</u>

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2020
(With Summarized Comparative Information for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 97,358	\$ (116,999)
Items not requiring cash		
Depreciation	5,035	5,312
Unrealized gain on investments	(19,746)	(5,701)
Realized gain on investments	(964)	(1,701)
Changes in operating assets and liabilities		
Grants receivable	1,488	34,565
Promises to give	(51,758)	3,112
Prepaid expenses	2,159	12,660
Accounts payable	(41,507)	18,477
Accrued expenses	(3,676)	7,397
Deferred revenue	31,250	(1,000)
	19,639	(43,878)
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Purchases of investments	(30,351)	(58,559)
Purchases of property and equipment	-	(2,761)
	(30,351)	(61,320)
Net cash used by investing activities		
Cash flows from financing activities		
PPP loan proceeds	92,332	-
Collections of contributions conditional in nature	10,000	-
	102,332	-
Net cash provided by financing activities		
Net change in cash, cash equivalents, and restricted cash	91,620	(105,198)
Cash, cash equivalents, and restricted cash - beginning of year	104,130	209,328
Cash, cash equivalents, and restricted cash - end of year	\$ 195,750	\$ 104,130
Cash, cash equivalents, and restricted cash		
Cash and cash equivalents (current)	\$ 194,800	\$ 103,980
Restricted cash	950	150
Total cash, cash equivalents, and restricted cash	\$ 195,750	\$ 104,130

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2020
(With Summarized Comparative Information for 2019)

	Program	Management	Fundraising	Total	
	Services	and General		2020	2019
Salaries and related costs					
Salaries and wages	\$ 111,430	\$ 55,086	\$ 67,313	\$ 233,829	\$ 370,864
Payroll taxes	9,234	4,320	6,135	19,689	34,869
Employee benefits	17,505	6,325	21,074	44,904	55,027
Total salaries and related costs	138,169	65,731	94,522	298,422	460,760
Printing and postage	791	525	11,246	12,562	34,569
Insurance	8,264	5,654	-	13,918	40,089
Utilities	300	2,287	-	2,587	51,402
Operating supplies	2,047	-	-	2,047	14,652
Equipment rental and maintenance	6,513	594	-	7,107	78,181
Molly arts education - intern	9,535	-	-	9,535	10,481
Festival footprint	-	-	-	-	15,765
Telephone and internet	-	3,558	-	3,558	3,563
Computer maintenance	-	7,098	-	7,098	8,822
Office supplies	-	1,524	-	1,524	2,282
Professional services	2,205	27,405	-	29,610	32,864
Books, subscriptions	531	5,803	-	6,334	6,235
Visual arts	-	-	-	-	1,300
Cost of goods sold	-	-	-	-	72,365
Artist fees	18,177	-	-	18,177	233,593
Production services and contractors	4,253	-	-	4,253	75,492
Other production costs	129	626	-	755	1,824
Taxes and licenses	2,519	300	-	2,819	10,088
Professional development	-	6,064	-	6,064	5,825
Design fees	30,000	-	-	30,000	20,000
Rent	-	20,085	-	20,085	34,705
Artist hotels	361	-	-	361	11,088
Box office	6,996	-	-	6,996	9,687
Artist travel	3,396	-	-	3,396	11,871
Credit card and bank fee	1,337	2,435	-	3,772	11,063
Security	-	-	-	-	36,352
Cultivation	-	-	2,182	2,182	8,956
Miscellaneous	-	1,063	4,796	5,859	4,683
Advertising	24,450	-	64	24,514	153,388
Depreciation	-	5,035	-	5,035	5,312
Total expenses	\$ 259,973	\$ 155,787	\$ 112,810	\$ 528,570	\$ 1,467,257

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

Ann Arbor Summer Festival, Inc. (the "Festival") is a Michigan non-profit, based in Ann Arbor, Michigan and incorporated in 1978. The Festival's mission is to present world-class celebration of arts and entertainment that enriches the cultural, economic, and social vitality of the region. The Festival is funded through ticket sales, concessions, contributions and grants.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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, 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 September 30, 2019 is presented for comparative purposes is not intended to be a complete financial statement presentation.

Cash and Cash Equivalents

The Festival considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents. The entire bank balance of \$198,249 was insured by the FDIC.

Investments

The Festival carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statements of Financial Position. Investment income and gains and losses, including unrealized, are included in the change in net assets in the accompanying Statements of Activities as without donor restriction unless restricted by donor stipulation. Donated investments are recorded at fair market value at the date of gift. The Festival holds investments which are classified as available for sale and are recorded at fair value.

The Festival applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

Grants Receivable

The Festival holds various types of receivables – accounts receivable related to Festival operations, grant and sponsorship receivables, as well as contribution receivables (pledges, i.e. promises to give). The Festival uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its receivables balances with particular attention given to those amounts greater than 90 days old. Based on management's review, no allowance was deemed necessary as of September 30, 2020 and 2019.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Festival that is, in substance, unconditional.

The Festival uses the income approach to value unconditional promises to give, in the aggregate on an annual basis, under the fair value option.

Property and Equipment

The Festival follows the practice of capitalizing all expenditures in excess of \$500 for property and equipment at cost; the fair value of donated fixed assets is similarly capitalized. Major improvements are capitalized while ordinary maintenance and repairs are expensed.

The Festival 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 as net assets are reported when the long-lived assets are placed in service.

Beneficial Interest in Assets Held by Others

The Festival has previously established an endowment held and managed by the Ann Arbor Area Community Foundation ("Foundation"). The Festival is eligible to receive distributions based on earnings on the average balance of the endowment, not to exceed the available balance. The Festival received disbursements of \$1,543 and \$1,484 during the years ended September 30, 2020 and 2019, respectively. With the exception of the previously mentioned allowable disbursements and an annual fee not to exceed the principal balance, the Foundation cannot make disbursements of the endowment corpus. The Foundation has variance power of these funds. The principal balance of these funds was \$41,688 and \$40,733 as of September 30, 2020 and 2019.

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

During the year, contributed goods and services meeting the requirements for recognition in the financial statements including legal services, printing, advertising, food, parking, etc. have been recorded at the fair value of the donations received. Total value of donated goods and services included in expenses was \$20,000 and \$160,423 for September 30, 2020 and 2019, respectively.

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

Advertising

The Festival expenses advertising costs the first time the advertising occurs. Advertising expense for the years ended September 30, 2020 and 2019 was \$24,514 and \$153,388, respectively. These amounts include in-kind advertising expenses.

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 such as salaries and related expenses.

Paycheck Protection Program (PPP) Loan

The Organization accounts for the PPP loan as a financial liability in accordance with FASB ASC 470 *Debt*. Interest is accrued throughout the life of the loan, even when no payments are currently due.

Income Tax Status

The Festival is qualified as a tax-exempt Festival 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 Festival files information returns in the U.S. Federal and Michigan jurisdiction.

Risks and Uncertainties

The Festival invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through January 19, 2021, which is the date the financial statements were available to be issued.

Change in Accounting Principle

The Festival adopted ASU 2016-18 Not-for-Profit Entities (Topic 230) *Statement of Cash Flows – Restricted Cash* as of the beginning of the year ended September 30, 2020. This has been adopted retrospectively. Restricted cash was included in total cash and cash equivalents on the cash flow statement as a result of this change. Cash flow activities for the year ended September 30, 2019 did not change as a result of this implementation.

The Festival adopted ASU 2018-08 Not-for-Profit Entities (Topic 958) *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* as of the beginning of the year ended September 30, 2019. This has been adopted using a modified prospective approach. This resulted in changes to the year ended September 30, 2020 as follows:

	Before Adoption	Adjustment	After Adoption
Change in net assets	\$ 68,358	\$ 29,000	\$ 97,358
Net assets without donor restrictions	74,770	-	74,770
Net assets with donor restrictions	313,274	29,000	342,274
Revenue	596,928	29,000	625,928

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles of recognizing revenue, create common revenue recognition guidance, and improve disclosures. Accordingly, the Festival has elected to implement this standard using a full retrospective adjustment of the prior year financial statements. Net assets without donor restrictions did not change as a result of this implementation.

Note 2 - Liquidity and Availability

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 194,800	\$ 103,980
Grants receivable	4,500	5,988
Promises to give	<u>51,809</u>	<u>51</u>
 Total financial assets - end of year	 <u>251,109</u>	 110,019
 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	(9,888)	-
 Board designations:		
Endowment earnings, primarily for long-term investing	<u>(72,158)</u>	<u>(47,212)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 169,063</u>	 <u>\$ 62,807</u>

The Organization's goal is generally to maintain financial assets to meet 3 to 6 months of operating expenses (approximately \$600,000). As part of its liquidity plan, excess cash is invested in short-term

investments, including money market accounts and certificates of deposit. The Organization has a \$50,000 line of credit available to meet cash flow needs.

Note 3 - Promises to Give

Promises to give are scheduled to be collected as follows:

	<u>2020</u>	<u>2019</u>
Promises to give	<u>\$ 51,809</u>	<u>\$ 51</u>
 Amounts due in		
2021	<u>\$ 51,809</u>	
 Balance beginning of the year	<u>\$ 51</u>	<u>\$ 3,163</u>
Less collections	(6,242)	(3,112)
Add new pledges	<u>58,000</u>	<u>-</u>
Balance end of the year	<u>\$ 51,809</u>	<u>\$ 51</u>

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

Note 4 - Conditional Promises to Give

During the fiscal year, the Organization received conditional promises to give related to local and federal grants. Payment of the grants is contingent upon spending the funds for the designated allowable purpose and various compliance requirements in accordance with 2 CFR 200 or other donor related barriers. The conditional contributions consisted of the following as of September 30:

Condition/ Grant Purpose	Total Contract/Grant Amount	Spent to Date	Conditional Contribution
To support participatory Indian dance performances and workshops	\$ 10,000	\$ -	\$ 10,000
Zero waste for summer festival	10,000	-	10,000
	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>

Note 5 - Grants Receivable

The Festival had the following grants receivable as of September 30:

	<u>2020</u>	<u>2019</u>
Michigan Council for Arts and Cultural Affairs	<u>\$ 4,500</u>	<u>\$ 5,988</u>

Note 6 - Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Revenue from contracts with customers	\$ 3,609	\$ 521,901
Contributions	207,158	293,078
Sponsorship	180,864	213,950
Grants	185,472	143,320
In-kind contributions	20,000	160,423
Other revenue	1,802	3,238
Interest and dividend income	6,313	6,946
Realized gain on investments	964	1,701
Unrealized gain on investments	19,746	5,701
Total revenue	<u>\$ 625,928</u>	<u>\$ 1,350,258</u>

The revenue from contracts with customers for the year ended September 30, 2020 and 2019 consists of:

	<u>2020</u>	<u>2019</u>
Revenue earned at a point in time	\$ 3,609	\$ 518,401
Revenue earned over time	-	3,500
Total revenue from contracts with customers	<u>\$ 3,609</u>	<u>\$ 521,901</u>

Revenue earned at a point in time consists of various festival programs such as private party rentals, ticket and souvenir sales provided to local business owners and patrons throughout the Summer Festival and Mainstage Series. Generally, private party rentals must be prepaid and therefore the revenues and cash flows

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

related to that program is not subject to the same amount of uncertainty as other activities. The private party rentals and other ticket programs are typically one day events and therefore the performance obligation is typically satisfied when the attendee attends the event; if the attendee does not attend the entire event, revenue is still earned if some portion of the event was attended. This is because if the attendee attends a portion of the event, they will not be refunded their money. There is no variable consideration for the events depending on who is attending as payment is received in advance or at time of entry. The transaction price is calculated using the expected value method based on historical experience for each price. Because the majority of attendees are paying timely and in advance, there is no constraint.

Revenue earned over time consists of advertising from local business owners throughout the area. The overall economy of the state of Michigan impacts the Festival's number of advertisements and the business's ability to pay. The advertisement period is an event or season and therefore the performance obligation is typically satisfied over the period of time of the specific contract. The receivable is due on receipt of the commitment. Most of the performance obligations are considered "stand-ready" performance obligations and are therefore recognized as revenue over the length of the contract term. The transaction price is allocated to the performance obligations based on the stand-alone selling price. Advertisement revenue is recognized based on the number of days completed in a contract period.

The following summarizes contract assets and contract liabilities as of:

	<u>October 1, 2019</u>	<u>September 30, 2019</u>	<u>September 30, 2020</u>
Accounts receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred revenue	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ 31,250</u>

There were no changes in judgments related to revenue recognition for the years ended September 30, 2020 and 2019.

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

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

Note 7 - Investments

Fair value of investments is determined by Level 1 inputs, which generally use quoted prices in active markets for identical assets that the Festival has the ability to access. The fair value at September 30 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 150	\$ 110
Bond funds	91,917	67,502
Mutual funds	211,319	184,713
	<u> </u>	<u> </u>
Total investments	<u>\$ 303,386</u>	<u>\$ 252,325</u>

Investment income is composed of the following at September 30:

	<u>2020</u>	<u>2019</u>
Dividends and interest	\$ 6,313	\$ 6,946
Realized gain on investments	964	1,701
Unrealized gain on investments	19,746	5,701
	<u> </u>	<u> </u>
	<u>\$ 27,023</u>	<u>\$ 14,348</u>

Note 8 - Property and Equipment

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

	<u>2020</u>	<u>2019</u>	<u>Estimate</u> <u>Useful Life</u>
Office Equipment	\$ 29,722	\$ 29,722	3-7 years
Production Equipment	126,358	134,238	3-7 years
	<u>156,080</u>	<u>163,960</u>	
	<u> </u>	<u> </u>	
Less: accumulated depreciation	(147,998)	(150,843)	
	<u> </u>	<u> </u>	
	<u>\$ 8,082</u>	<u>\$ 13,117</u>	

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

Note 9 - Notes Payable

During the fiscal year, the Organization received a Paycheck Protection Program (PPP) Loan of \$92,332 funded by the Federal government through the Small Business Administration. The PPP loan and any accrued interest are forgivable after twenty four weeks as long as the borrower meets certain criteria. The loan proceeds must be used for eligible purposes, including payroll, health insurance, retirement plans, state and local taxes assessed on employee compensation, mortgage interest, rent, and utilities. The criteria also reduces loan forgiveness for certain reductions in salaries or reductions in FTEs. When final forgiveness, if any, is determined, a gain on extinguishment of debt will be realized for any forgiven amounts. There is a deferral of payments until loan forgiveness is determined or 10 months after the last day of the covered period, whichever occurs first.

Year Ending September 30,	
2021	\$ 57,158
2022	<u>36,373</u>
Total minimum payments	93,531
Less amount representing interest	<u>(1,199)</u>
Total principal payments due	<u><u>\$ 92,332</u></u>

Note 10 - Board Designated Net Assets

The Board of Directors of the Festival has voluntarily designated \$73,108 and \$47,362 as of September 30, 2020 and 2019, respectively, whose purpose is to be held as corpus in the endowment fund until the endowment reaches its investment goal.

Note 11 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods at September 30:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Summer internships	\$ 23,526	\$ 33,521
Other programs	<u>1,000</u>	<u>-</u>
	<u>24,526</u>	<u>33,521</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due		
2021	29,000	-
Endowment	2,500	-
Underwriting	5,020	-
Sponsorship of 2021 Summer Festival	<u>50,000</u>	<u>-</u>
	<u>86,520</u>	<u>-</u>
Endowments:		
Permanently restricted to general endowment	<u>231,228</u>	<u>205,113</u>
Total net assets with donor restrictions	<u>\$ 342,274</u>	<u>\$ 238,634</u>

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

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 years ended September 30, 2020 and 2019:

	2020	2019
Expiration of time restrictions	\$ 39,000	\$ 10,000

Note 13 - Endowment Fund

The Festival treats monies received as endowments as net assets with donor restrictions at the fair market value of the initial contribution. Net income from these endowments may be spent as the Festival sees fit with the current policy that the distributions are limited to 4.5% of the average value of the endowment balance over the previous seven years, with no distributions to be made until the combined endowment accounts reach \$500,000. Endowments are invested with the objective of achieving a long-term growth of principal and income using the following investment vehicles - equity securities, mutual funds, fixed income securities (maturities longer than one year) and cash equivalents (maturities less than one year) and using targeted allocations between these vehicles with, at minimum, annual rebalancing to maintain the strategic allocation goals.

The endowment funds are invested in a checking account, money market account, and in mutual funds. These amounts are listed in the statements of financial position other assets section as restricted cash and restricted investments.

The endowment net asset composition by type of fund as of September 30, 2020 is as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment Corpus	\$ -	\$ 231,228	\$ 231,228
Endowment Earnings	73,108	-	73,108
	\$ 73,108	\$ 231,228	\$ 304,336

The changes in endowment net assets for the year ended September 30, 2020 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Beginning of year	\$ 47,362	\$ 205,113	\$ 252,475
Contributions	-	26,115	26,115
Investment income	6,000	-	6,000
Unrealized gain (loss)	19,746	-	19,746
End of year	\$ 73,108	\$ 231,228	\$ 304,336

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

The endowment net asset composition by type of fund as of September 30, 2019 is as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment Corpus	\$ -	\$ 205,113	\$ 205,113
Endowment Earnings	47,362	-	47,362
	<u>\$ 47,362</u>	<u>\$ 205,113</u>	<u>\$ 252,475</u>

The changes in endowment net assets for the year ended September 30, 2019 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Beginning of year	\$ 35,601	\$ 153,233	\$ 188,834
Contributions	-	51,880	51,880
Investment income	6,060	-	6,060
Unrealized gain (loss)	5,701	-	5,701
End of year	<u>\$ 47,362</u>	<u>\$ 205,113</u>	<u>\$ 252,475</u>

Return Objectives and Risk Parameters

The Festival has adopted a policy to invest with the objective of achieving long-term growth of principal and income to support current projects of the Festival.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Festival's return objective is a mix of the following investment vehicles: equity securities, mutual funds, fixed income securities (maturities longer than one year) and cash equivalents (maturities less than one year) and using targeted allocations between these vehicles with, at minimum, annual rebalancing to maintain strategic allocation goals.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Festival's finance committee will review annually and recommend a spending percentage as available according the endowment balances and terms of use.

Note 14 - Retirement Plan

The Festival participates in a collective bargaining agreement with Local 395 of IATSE (International Alliance of Theatrical Stage of Employees) for performing artist services which represent approximately 7 percent of the total salaries incurred for each reported year.

The Festival contributes to the IATSE National Benefits Funds on behalf of applicable union employees. The pension and welfare contribution amounts are based on a set pay schedule. Amounts contributed for the years ended September 30, 2020 and 2019 were approximately \$814 and \$8,572, respectively.

The Festival maintains a 403(b) tax deferred annuity plan and a 457(b) deferred compensation plan for eligible employees not covered by the above plan. The contributions to the plans amounted to \$0 for both year September 30, 2020 and 2019, respectively.

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2020
(With Summarized Comparative Information for 2019)

Note 15 - Operating Lease

The Festival is renting office space at 210 Huronview, Ann Arbor, MI 48103. The current lease expires September 30, 2022. Future lease payments consist of the following:

2021	\$ 19,800
2022	<u>20,400</u>
	<u>\$ 40,200</u>

Lease expense for 2020 and 2019 was \$19,005 and \$18,585, respectively which consisted solely of minimum rentals and no contingent rentals or sublease rental income.

Note 16 - Related Party Transactions

The Board of Directors and the Executive Committee of Ann Arbor Summer Festival, Inc. include members who are employees and/or directors/trustees of the University of Michigan or the City of Ann Arbor. These entities serve the Festival in the following capacities.

The University of Michigan provided financial support to the Festival in the amount of \$29,000 for both September 30, 2020 and 2019, respectively. The University of Michigan has granted \$29,000 per year for five years beginning fiscal year 2017 and ending fiscal year 2021. The grant is recorded as a promise to give with receipt of funds as the expenses are incurred and reimbursement is requested through the end of the grant period. Also, the Festival contracted with the University of Michigan for various services provided during the festival including, but not limited to, production offices, venue and equipment rentals, telephone, internet, event security, grounds, waste management, physical plant, and film services of which totaled approximately \$36,300 and \$47,533 for each year, respectively. Amounts due at year-end for these services were approximately \$0 and \$12,314, respectively, reflected in accounts payable.

The City of Ann Arbor provided financial support to the Festival in the amount of \$28,000 and \$29,000 for September 30, 2020 and 2019, respectively. In-kind services the City of Ann Arbor and The Downtown Development Authority provided included, but were not limited to, licenses, street closures, barricades, and parking during the festival that totaled approximately \$798 and \$43,872 for each year, respectively.

Note 17 - Concentration

Grant income is made up of four main grantors, each contributing approximately 15-31% of total grant income recognized in fiscal year 2020. For fiscal year 2019, there were four major grantors, each contributing approximately 20-23% of total grant income.

Note 18 - Line of Credit

The Festival had a line of credit arrangement totaling \$50,000. This arrangement provided for borrowing amounts for short-term use at a variable interest rate of 4.75%. While the line of credit was available for use, there were no borrowings during the year, and the term ended on November 30, 2019. Subsequent to year end, the Festival renewed the line of credit on November 3, 2020 expiring November 30, 2021 at the same variable interest rate.

Note 19 - Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. Future potential impacts may include disruptions or restrictions on our employees' ability to work.