

Ann Arbor Summer Festival, Inc.

Financial Statements

September 30, 2021

(With Summarized Comparative Information for 2020)



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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, 2021, 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, 2021, 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.

Report on Summarized Comparative Information

We have previously audited the Ann Arbor Summer Festival, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 19, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
February 22, 2022

Ann Arbor Summer Festival, Inc.
Statement of Financial Position
September 30, 2021
(With Summarized Comparative Information for 2020)

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 294,519	\$ 194,800
Grants receivable	3,600	4,500
Promises to give	53,436	51,809
Prepaid expenses	3,050	3,069
Total current assets	354,605	254,178
Noncurrent assets		
Restricted cash	150	950
Restricted investments	368,697	303,386
Promises to give, net of current portion	2,500	-
Property and equipment, net	9,435	8,082
Total noncurrent assets	380,782	312,418
Total assets	\$ 735,387	\$ 566,596

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Statement of Financial Position
September 30, 2021
(With Summarized Comparative Information for 2020)

	2021	2020
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 11,368	\$ 8,313
Accrued expenses	30,318	7,657
Deferred revenue	15,000	31,250
Advance refunding	10,000	10,000
Long-term debt, current portion	-	56,080
Total current liabilities	66,686	113,300
Long-term liabilities		
Long-term debt, net of current portion	-	36,252
Total liabilities	66,686	149,552
Net assets		
Without donor restrictions		
Undesignated	252,176	1,662
Endowment earnings	136,235	73,108
Total without donor restrictions	388,411	74,770
With donor restrictions		
Purpose restrictions	13,678	24,526
Time-restricted for future periods	34,000	86,520
Endowment corpus	232,612	231,228
Total with donor restrictions	280,290	342,274
Total net assets	668,701	417,044
Total liabilities and net assets	\$ 735,387	\$ 566,596

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Statement of Activities
For the Year Ended September 30, 2021
(With Summarized Comparative Information for 2020)

	Without donor restrictions	With donor restrictions	2021	2020
Revenue, support and gains (losses)				
Ticketed series sales	\$ 23,482	\$ -	\$ 23,482	\$ 3,425
Top of the Park sales	443	-	443	184
Contributions	277,258	6,384	283,642	207,158
PPP loan forgiveness	185,798	-	185,798	-
Sponsorships	67,450	-	67,450	180,864
Grants	313,834	152	313,986	185,472
In-kind contributions	21,119	-	21,119	20,000
Other revenue	1,141	-	1,141	1,802
Interest and dividend income	2,743	-	2,743	6,313
Realized gain on investments	347	-	347	964
Unrealized gain on investments	60,168	-	60,168	19,746
Net assets released from restrictions	68,520	(68,520)	-	-
	<u>1,022,303</u>	<u>(61,984)</u>	<u>960,319</u>	<u>625,928</u>
Expenses				
Program services	<u>389,461</u>	<u>-</u>	<u>389,461</u>	<u>259,973</u>
Support				
Management and general	204,485	-	204,485	155,787
Fundraising	<u>114,716</u>	<u>-</u>	<u>114,716</u>	<u>112,810</u>
Total support	<u>319,201</u>	<u>-</u>	<u>319,201</u>	<u>268,597</u>
Total expenses	<u>708,662</u>	<u>-</u>	<u>708,662</u>	<u>528,570</u>
Change in net assets	313,641	(61,984)	251,657	97,358
Net assets - beginning of year	<u>74,770</u>	<u>342,274</u>	<u>417,044</u>	<u>319,686</u>
Net assets - end of year	<u>\$ 388,411</u>	<u>\$ 280,290</u>	<u>\$ 668,701</u>	<u>\$ 417,044</u>

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2021
(With Summarized Comparative Information for 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 251,657	\$ 97,358
Items not requiring cash		
Depreciation	5,592	5,035
Gain on extinguishment of debt	(92,332)	-
Unrealized gain on investments	(60,168)	(19,746)
Realized gain on investments	(347)	(964)
Changes in operating assets and liabilities		
Grants receivable	900	1,488
Promises to give	(4,127)	(51,758)
Prepaid expenses	19	2,159
Accounts payable	3,055	(41,507)
Accrued expenses	22,661	(3,676)
Deferred revenue	(16,250)	31,250
Net cash provided by operating activities	110,660	19,639
Cash flows from investing activities		
Purchases of investments	(4,796)	(30,351)
Purchases of property and equipment	(6,945)	-
Net cash used by investing activities	(11,741)	(30,351)
Cash flows from financing activities		
PPP loan proceeds	-	92,332
Collections of contributions conditional in nature	-	10,000
Net cash provided by financing activities	-	102,332
Net change in cash, cash equivalents, and restricted cash	98,919	91,620
Cash, cash equivalents, and restricted cash - beginning of year	195,750	104,130
Cash, cash equivalents, and restricted cash - end of year	\$ 294,669	\$ 195,750
Cash, cash equivalents, and restricted cash		
Cash and cash equivalents (current)	\$ 294,519	\$ 194,800
Restricted cash	150	950
Total cash, cash equivalents, and restricted cash	\$ 294,669	\$ 195,750

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2021
(With Summarized Comparative Information for 2020)

	Program	Management	Fundraising	Total	
	Services	and General		2021	2020
Salaries and related costs					
Salaries and wages	\$ 149,519	\$ 60,208	\$ 82,321	\$ 292,048	\$ 233,829
Payroll taxes	10,915	4,355	5,921	21,191	19,689
Employee benefits	15,347	3,826	7,485	26,658	44,904
Total salaries and related costs	175,781	68,389	95,727	339,897	298,422
Printing and postage	-	3,079	11,170	14,249	12,562
Insurance	7,546	8,156	-	15,702	13,918
Utilities	5,314	2,816	-	8,130	2,587
Operating supplies	5,475	4,707	-	10,182	2,047
Equipment rental and maintenance	21,608	842	-	22,450	7,107
Education outreach	-	700	-	700	-
Molly arts education - intern	9,936	-	-	9,936	9,535
Telephone and internet	-	3,773	-	3,773	3,558
Computer maintenance	-	10,778	-	10,778	7,098
Office supplies	-	1,778	-	1,778	1,524
Professional services	-	26,587	-	26,587	29,610
Books, subscriptions	1,047	5,072	-	6,119	6,334
Visual arts	2,000	-	-	2,000	-
Cost of goods sold	1,330	-	-	1,330	-
Artist fees	73,838	-	-	73,838	18,177
Production services and contractors	17,805	2,600	-	20,405	4,253
Other production costs	696	60	-	756	755
Taxes and licenses	2,761	228	-	2,989	2,819
Professional development	-	1,790	-	1,790	6,064
Design fees	38,500	5,900	-	44,400	30,000
Rent	3,210	20,880	-	24,090	20,085
Artist hotels	871	-	-	871	361
Box office	23	-	-	23	6,996
Artist travel	6,874	54	-	6,928	3,396
Credit card and bank fee	40	4,395	-	4,435	3,772
Security	2,100	-	-	2,100	-
Cultivation	-	-	7,819	7,819	6,977
Miscellaneous	35	933	-	968	1,064
Advertising	12,671	25,376	-	38,047	24,514
Depreciation	-	5,592	-	5,592	5,035
Total expenses	\$ 389,461	\$ 204,485	\$ 114,716	\$ 708,662	\$ 528,570

See Accompanying Notes to the Financial Statements

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2021
(With Summarized Comparative Information for 2020)

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

Ann Arbor Summer Festival, Inc. ("A2SF") is a Michigan non-profit, based in Ann Arbor, Michigan and incorporated in 1978. A2SF's mission is to present world-class celebration of arts and entertainment that enriches the cultural, economic, and social vitality of the region. A2SF 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.

A2SF 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 statement of activities as net assets released from restrictions.

Comparative Financial Information

The financial information for the year September 30, 2020 is presented for comparative purposes is not intended to be a complete financial statement presentation.

Cash and Cash Equivalents

A2SF considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents. As of September 30, 2021 \$58,617 of cash and cash equivalents was in excess of the amount insured by the FDIC of the total bank deposits of \$308,617.

Investments

A2SF carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Investment income and gains and losses, including unrealized, are included in the change in net assets in the accompanying statement of activities as without donor restriction unless restricted by donor stipulation. Donated investments are recorded at fair market value at the date of gift. A2SF holds investments which are classified as available for sale and are recorded at fair value.

A2SF 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, 2021
(With Summarized Comparative Information for 2020)

Grants Receivable

A2SF holds various types of receivables – accounts receivable related to A2SF operations, grant and sponsorship receivables, as well as contribution receivables (pledges, i.e. promises to give). A2SF 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, 2021 and 2020.

Promises to Give

Contributions are recognized when the donor makes a promise to give to A2SF that is, in substance, unconditional.

A2SF 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

A2SF 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.

A2SF 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 revenue 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

A2SF has previously established an endowment held and managed by the Ann Arbor Area Community Foundation (“Foundation”). A2SF is eligible to receive distributions based on earnings on the average balance of the endowment, not to exceed the available balance. A2SF received disbursements of \$1,605 and \$1,543 during the years ended September 30, 2021 and 2020, 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 \$129,237 and \$41,688 as of September 30, 2021 and 2020.

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 \$21,119 and \$20,000 for September 30, 2021 and 2020, respectively.

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2021
(With Summarized Comparative Information for 2020)

Advertising

A2SF expenses advertising costs the first time the advertising occurs. Advertising expense for the years ended September 30, 2021 and 2020 was \$38,047 and \$24,514, 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 statement of activities. The statement 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

A2SF 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. All amounts were forgiven during the fiscal year.

Income Tax Status

A2SF 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). A2SF files information returns in the U.S. Federal and Michigan jurisdiction.

Risks and Uncertainties

A2SF 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 February 22, 2022, which is the date the financial statements were available to be issued.

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2021
(With Summarized Comparative Information for 2020)

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 294,519	\$ 194,800
Investments	368,847	304,336
Grants receivable	3,600	4,500
Promises to give	<u>53,436</u>	<u>51,809</u>
 Total financial assets - end of year	 720,402	 555,445
 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	(280,290)	(342,274)
 Board designations:		
Endowment earnings, primarily for long-term investing	<u>(136,235)</u>	<u>(73,108)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 303,877</u>	 <u>\$ 140,063</u>

A2SF'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. A2SF 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>2021</u>	<u>2020</u>
Promises to give	\$ 55,936	\$ 51,809
 Amounts due in		
2022	\$ 53,436	
2023	<u>2,500</u>	
	<u>\$ 55,936</u>	

All amounts due are current and expected to be fully received.

	<u>2021</u>	<u>2020</u>
Balance beginning of the year	\$ 51,809	\$ 51
Less collections	(873)	(6,242)
Add new pledges	<u>5,000</u>	<u>58,000</u>
Balance end of the year	<u>\$ 55,936</u>	<u>\$ 51,809</u>

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2021
(With Summarized Comparative Information for 2020)

Note 4 - Conditional Promises to Give

During the fiscal year, A2SF 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, 2021:

Condition/ Grant Purpose	Total Contract/Grant Amount	Spent to Date	Conditional Contribution
Zero waste for summer festival	\$ 10,000	\$ -	\$ 10,000

Note 5 - Grants Receivable

A2SF had the following grants receivable as of September 30:

	2021	2020
Michigan Council for Arts and Cultural Affairs	<u>\$ 3,600</u>	<u>\$ 4,500</u>

Note 6 - Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended September 30, 2021 and 2020:

	2021	2020
Revenue from contracts with customers	\$ 23,925	\$ 3,609
Contributions	283,642	207,158
Sponsorship	67,450	180,864
Grants	313,986	185,472
PPP loan forgiveness	185,798	-
In-kind contributions	21,119	20,000
Other revenue	1,141	1,802
Interest and dividend income	2,743	6,313
Realized gain on investments	347	964
Unrealized gain on investments	60,168	19,746
Total revenue	<u>\$ 960,319</u>	<u>\$ 625,928</u>

The revenue from contracts with customers for the year ended September 30, 2021 and 2020 consists of:

	2021	2020
Revenue earned at a point in time	<u>\$ 23,925</u>	<u>\$ 3,609</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 year. Generally, private party rentals must be prepaid and therefore the revenues and cash flows 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

Ann Arbor Summer Festival, Inc.
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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 A2SF'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:

	September 30, 2021	September 30, 2020	October 1, 2020
Accounts receivable	\$ -	\$ -	\$ -
Deferred revenue	\$ 15,000	\$ 31,250	\$ -

There were no changes in judgments related to revenue recognition for the years ended September 30, 2021 and 2020.

A2SF uses the practical expedient to record revenue as if there is no significant financing component when the receivable is due within one year.

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 A2SF has the ability to access. The fair value at September 30 is summarized as follows:

	2021	2020
Money market funds	\$ 2,185	\$ 150
Bond funds	91,640	91,917
Mutual funds	274,872	211,319
Total investments	<u>\$ 368,697</u>	<u>\$ 303,386</u>

Investment income is composed of the following at September 30:

	2021	2020
Dividends and interest	\$ 2,743	\$ 6,313
Realized gain on investments	347	964
Unrealized gain on investments	60,168	19,746
	<u>\$ 63,258</u>	<u>\$ 27,023</u>

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
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Note 8 - Property and Equipment

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

	<u>2021</u>	<u>2020</u>	<u>Estimate Useful Life</u>
Office equipment	\$ 25,311	\$ 29,722	3-7 years
Production equipment	<u>131,232</u>	<u>126,358</u>	3-7 years
	156,543	156,080	
Less: accumulated depreciation	<u>(147,108)</u>	<u>(147,998)</u>	
	<u>\$ 9,435</u>	<u>\$ 8,082</u>	

Note 9 - Notes Payable

During the fiscal year, A2SF received a Paycheck Protection Program (PPP) Loan of \$92,333 funded by the Federal government through the Small Business Administration. Final forgiveness was determined by the SBA in July 2021. Accordingly, \$93,131 of gain on extinguishment of debt has been realized in these financial statements.

During the prior fiscal year, A2SF received a Paycheck Protection Program (PPP) Loan of \$92,332 funded by the Federal government through the Small Business Administration. Final forgiveness was determined by the SBA in March 2021. Accordingly, \$92,667 of gain on extinguishment of debt has been realized in these financial statements.

Note 10 - Board Designated Net Assets

The Board of Directors of A2SF has voluntarily designated \$136,235 and \$73,108 as of September 30, 2021 and 2020, respectively, whose purpose is to be held as corpus in the endowment fund until the endowment reaches its investment goal.

Ann Arbor Summer Festival, Inc.
Notes to the Financial Statements
September 30, 2021
(With Summarized Comparative Information for 2020)

Note 11 - Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Summer internships	\$ 13,678	\$ 23,526
Other programs	-	1,000
	<u>13,678</u>	<u>24,526</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due		
2022	2,500	-
2023	2,500	-
Endowment	-	2,500
Underwriting	-	5,020
Sponsorship of 2021 Summer Festival	29,000	79,000
	<u>34,000</u>	<u>86,520</u>
Endowments:		
Permanently restricted to general endowment	<u>232,612</u>	<u>231,228</u>
Total net assets with donor restrictions	<u>\$ 280,290</u>	<u>\$ 342,274</u>

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Expiration of time restrictions	\$ 57,520	\$ 39,000
Satisfaction of purpose restrictions		
Educational programs	<u>11,000</u>	<u>-</u>
	<u>\$ 68,520</u>	<u>\$ 39,000</u>

Note 13 - Endowment Fund

A2SF 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 A2SF 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 statement of financial position other assets section as restricted cash and restricted investments.

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The endowment net asset composition by type of fund as of September 30, 2021 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment corpus	\$ -	\$ 232,612	\$ 232,612
Endowment earnings	136,235	-	136,235
	<u>\$ 136,235</u>	<u>\$ 232,612</u>	<u>\$ 368,847</u>

The changes in endowment net assets for the year ended September 30, 2021 are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of year	\$ 73,108	\$ 231,228	\$ 304,336
Contributions	-	1,384	1,384
Investment income	2,959	-	2,959
Unrealized gain (loss)	60,168	-	60,168
End of year	<u>\$ 136,235</u>	<u>\$ 232,612</u>	<u>\$ 368,847</u>

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

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment corpus	\$ -	\$ 231,228	\$ 231,228
Endowment earnings	73,108	-	73,108
	<u>\$ 73,108</u>	<u>\$ 231,228</u>	<u>\$ 304,336</u>

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

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>\$ 73,108</u>	<u>\$ 231,228</u>	<u>\$ 304,336</u>

Return Objectives and Risk Parameters

A2SF has adopted a policy to invest with the objective of achieving long-term growth of principal and income to support current projects of A2SF.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, A2SF'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.

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Spending Policy and How the Investment Objectives Relate to Spending Policy

A2SF's finance committee will review annually and recommend a spending percentage as available according to the endowment balances and terms of use.

Note 14 - Retirement Plan

A2SF 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.

A2SF 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, 2021 and 2020 were approximately \$406 and \$814, respectively.

A2SF 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, 2021 and 2020, respectively.

Note 15 - Operating Lease

A2SF 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:

2022	<u>\$ 20,400</u>
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Lease expense for 2021 and 2020 was \$19,800 and \$19,005, 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 A2SF in the following capacities.

The University of Michigan provided financial support to A2SF in the amount of \$29,000 and \$29,000 for September 30, 2021 and 2020, 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, A2SF 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 \$2,616 and \$36,300 for each year, respectively. Amounts due at year-end for these services and reflected in accounts payable were \$0 for both September 30, 2021 and 2020.

The City of Ann Arbor provided financial support to A2SF in the amount of \$31,000 and \$28,000 for September 30, 2021 and 2020, 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 \$0 and \$798 for each year, respectively.

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Note 17 - Concentration

Grant income is made up of four main grantors, each contributing approximately 6-37% of total grant income recognized in fiscal year 2021. For fiscal year 2020, there were four major grantors, each contributing approximately 15-31% of total grant income.

Note 18 - Line of Credit

A2SF 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 3.25%. While the line of credit was available for use, there were no borrowings during the year, and the term ended on November 30, 2021.

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.