



# Financial Statements

As of and for the years ended September 30, 2023 and 2022

## Michigan Theater Foundation, Inc.

Ann Arbor, Michigan



**ALTRUICADVISORS**<sup>®</sup>  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS  
*...helping nonprofits create good*<sup>®</sup>



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# Michigan Theater Foundation, Inc.

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## **Independent Auditors' Report**

To the Board of Directors  
Michigan Theater Foundation, Inc.  
Ann Arbor, Michigan

### **Opinion**

We have audited the accompanying financial statements of Michigan Theater Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Michigan Theater Foundation, Inc. as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits 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 in our report. We are required to be independent of Michigan Theater Foundation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Michigan Theater Foundation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Independent Auditors' Report (continued)**

### **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 auditor's 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, including omissions, 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 Michigan Theater Foundation, Inc.'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 Michigan Theater Foundation, Inc.'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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

*Altruic Advisors, CPAs*

Certified Public Accountants

Plymouth, Michigan  
March 8, 2024

# Michigan Theater Foundation, Inc.

## Statements of Financial Position

September 30	2023	2022
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,598,008	\$ 4,811,101
Investments	2,501,841	-
Accounts receivable	83,741	49,006
Pledges receivable, current	547,357	556,970
Grants receivable	38,875	-
Inventory	86,845	26,023
Prepaid expenses and other current assets	74,892	34,031
Total current assets	<u>4,931,559</u>	<u>5,477,131</u>
<b>Property and equipment, net</b>	<u>9,547,341</u>	<u>9,815,969</u>
<b>Other Assets</b>		
Pledges receivable, noncurrent, net	433,984	601,104
Right of use asset, net	311,639	-
Trademark	45,850	-
Security deposit	3,630	3,630
Total other assets	<u>795,103</u>	<u>604,734</u>
Total assets	<u>\$ 15,274,003</u>	<u>\$ 15,897,834</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 221,162	\$ 267,115
Accrued compensation and benefits	122,013	97,426
Deferred revenue	1,126,288	693,128
Current portion of operating lease obligation	26,788	-
Notes payable, current portion	-	51,676
Total current liabilities	<u>1,496,251</u>	<u>1,109,345</u>
<b>Long-Term Liabilities</b>		
Operating lease obligation, net of current portion	290,055	-
Notes payable, net of current	-	144,774
Total long-term liabilities	<u>290,055</u>	<u>144,774</u>
Total liabilities	<u>1,786,306</u>	<u>1,254,119</u>
<b>Net Assets</b>		
Net assets without donor restrictions		
Undesignated	420,051	1,366,123
Board-designated	12,047,430	12,119,518
Total net assets without donor restrictions	<u>12,467,481</u>	<u>13,485,641</u>
Net assets with donor restrictions	<u>1,020,216</u>	<u>1,158,074</u>
Total net assets	<u>13,487,697</u>	<u>14,643,715</u>
Total liabilities and net assets	<u>\$ 15,274,003</u>	<u>\$ 15,897,834</u>

The accompanying Notes are an integral part of these financial statements

# Michigan Theater Foundation, Inc.

## Statement of Activities

Year ended September 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Support and Revenue</b>			
<b>Operating Support</b>			
Grants and contributions	\$ 725,543	\$ 346,900	\$ 1,072,443
Special event sponsorships and donations	102,521	-	102,521
In-kind contributions	95,544	-	95,544
Support received from members	540,527	-	540,527
Sponsorships	101,419	-	101,419
Net assets released from restrictions			
Expiration of time restrictions	484,758	(484,758)	-
Total operating support	<u>2,050,312</u>	<u>(137,858)</u>	<u>1,912,454</u>
<b>Operating Revenue</b>			
Film and event income	2,023,955	-	2,023,955
Special event revenue, net of related expenses of \$43,148	(9,874)	-	(9,874)
Membership dues income	14,338	-	14,338
Concessions income, net of related expenses of \$99,687	418,951	-	418,951
Total operating revenue	<u>2,447,370</u>	<u>-</u>	<u>2,447,370</u>
Total operating support and revenue	<u>4,497,682</u>	<u>(137,858)</u>	<u>4,359,824</u>
<b>Operating Expenses</b>			
Program services	3,534,266	-	3,534,266
Supporting services			
General and administrative	1,728,578	-	1,728,578
Fundraising	618,910	-	618,910
Total operating expenses	<u>5,881,754</u>	<u>-</u>	<u>5,881,754</u>
Total operating support and revenue in deficit of operating expenses	<u>(1,384,072)</u>	<u>(137,858)</u>	<u>(1,521,930)</u>
<b>Other Changes</b>			
Fees collected in lieu of loss rents	225,000	-	225,000
Advertising income	38,295	-	38,295
Interest income	101,720	-	101,720
Miscellaneous income	897	-	897
Total other changes	<u>365,912</u>	<u>-</u>	<u>365,912</u>
<b>Change in Net Assets</b>	<b>(1,018,160)</b>	<b>(137,858)</b>	<b>(1,156,018)</b>
<b>Net Assets, Beginning of Year</b>	<b>13,485,641</b>	<b>1,158,074</b>	<b>14,643,715</b>
<b>Net Assets, End of Year</b>	<b><u>\$ 12,467,481</u></b>	<b><u>\$ 1,020,216</u></b>	<b><u>\$ 13,487,697</u></b>

The accompanying Notes are an integral part of these financial statements

# Michigan Theater Foundation, Inc.

## Statement of Activities

Year ended September 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Support and Revenue</b>			
<b>Operating Support</b>			
Grants and contributions	\$ 1,679,091	\$ 522,819	\$ 2,201,910
In-kind contributions	196,984	-	196,984
Support received from members	597,010	-	597,010
Sponsorships	154,167	-	154,167
Net assets released from restrictions			
Expiration of time restrictions	620,005	(620,005)	-
Total operating support	<u>3,247,257</u>	<u>(97,186)</u>	<u>3,150,071</u>
<b>Operating Revenue</b>			
Film and event income	1,702,258	-	1,702,258
Membership dues income	16,122	-	16,122
Concessions income, net of related expenses of \$62,521	361,600	-	361,600
Total operating revenue	<u>2,079,980</u>	<u>-</u>	<u>2,079,980</u>
 Total operating support and revenue	 <u>5,327,237</u>	 <u>(97,186)</u>	 <u>5,230,051</u>
<b>Operating Expenses</b>			
Program services	2,961,290	-	2,961,290
Supporting services			
General and administrative	2,041,266	-	2,041,266
Fundraising	638,046	-	638,046
Total operating expenses	<u>5,640,602</u>	<u>-</u>	<u>5,640,602</u>
 Total operating support and revenue in deficit of operating expenses	 <u>(313,365)</u>	 <u>(97,186)</u>	 <u>(410,551)</u>
<b>Other Changes</b>			
Advertising income	11,985	-	11,985
Interest income	11,450	-	11,450
Miscellaneous income	2,300	-	2,300
Loss on disposition of equipment	(1,562)	-	(1,562)
Gain on debt forgiveness	538,857	-	538,857
<b>Total other changes</b>	<u>563,030</u>	<u>-</u>	<u>563,030</u>
 <b>Change in Net Assets</b>	 249,665	 (97,186)	 152,479
 <b>Net Assets, Beginning of Year</b>	 <u>13,235,976</u>	 <u>1,255,260</u>	 <u>14,491,236</u>
 <b>Net Assets, End of Year</b>	 <u>\$ 13,485,641</u>	 <u>\$ 1,158,074</u>	 <u>\$ 14,643,715</u>

The accompanying Notes are an integral part of these financial statements

# Michigan Theater Foundation, Inc.

## Statement of Functional Expenses

Year ended September 30, 2023

	Program Services	Supporting Services		Total Expenses
		General and Administrative	Fundraising	
Salaries and wages	\$ 752,509	\$ 846,107	\$ 401,973	\$ 2,000,589
Employee benefits	151,694	172,491	9,851	334,036
Payroll taxes	61,265	91,277	30,884	183,426
Total personnel costs	<u>965,468</u>	<u>1,109,875</u>	<u>442,708</u>	<u>2,518,051</u>
Film and live event expenses	941,061	-	-	941,061
Depreciation	629,715	41,981	27,987	699,683
Occupancy	152,355	175,083	-	327,438
Other professional services	90,377	125,381	85,446	301,204
Membership expenses	253,268	-	-	253,268
Advertising and promotions	185,584	-	-	185,584
Bank and service charges	78,938	33,831	-	112,769
IT and software expenses	90,348	-	-	90,348
Repairs and maintenance	70,419	1,098	-	71,517
Legal and accounting	-	64,919	-	64,919
Insurance	48,158	3,888	-	52,046
Bad debt	-	51,919	-	51,919
Fundraising	-	-	49,220	49,220
Travel and meetings	-	30,802	-	30,802
Printing, publications, and postage	18,136	3,822	8,459	30,417
Office expenses	10,097	15,043	5,090	30,230
Miscellaneous expenses	342	29,287	-	29,629
Net present value discount	-	27,092	-	27,092
Dues and fees	-	10,647	-	10,647
Taxes and fees	-	3,023	-	3,023
Interest expense	-	887	-	887
Total expenses	<u>\$ 3,534,266</u>	<u>\$ 1,728,578</u>	<u>\$ 618,910</u>	<u>\$ 5,881,754</u>

The accompanying Notes are an integral part of these financial statements



# Michigan Theater Foundation, Inc.

## Statement of Functional Expenses

Year ended September 30, 2022

	Program Services	Supporting Services		Total Expenses
		General and Administrative	Fundraising	
Salaries and wages	\$ 683,056	\$ 760,218	\$ 372,337	\$ 1,815,611
Employee benefits	132,447	93,766	2,808	229,021
Payroll taxes	49,464	59,703	33,168	142,335
Total personnel costs	864,967	913,687	408,313	2,186,967
Film and live event expenses	827,042	-	-	827,042
Depreciation	630,080	42,005	28,004	700,089
Other professional services	101,982	429,161	19,296	550,439
Occupancy	68,261	265,711	45,772	379,744
Membership expenses	224,912	-	1,466	226,378
Advertising and promotions	117,991	-	-	117,991
Fundraising	-	-	112,232	112,232
Bank and service charges	-	88,828	-	88,828
IT and software expenses	4,634	76,852	3,108	84,594
Repairs and maintenance	70,372	3,068	1,138	74,578
Insurance	20,109	31,761	13,484	65,354
Printing, publications, and postage	26,541	11,501	-	38,042
Legal and accounting	-	35,613	-	35,613
Net present value discount	-	33,426	-	33,426
Miscellaneous expenses	1,274	29,402	1,213	31,889
Taxes and fees	-	20,297	-	20,297
Bad debt	-	19,042	-	19,042
Travel and meetings	-	18,850	-	18,850
Interest expense	-	12,966	-	12,966
Office expenses	3,125	3,772	2,095	8,992
Dues and fees	-	5,324	1,925	7,249
Total expenses	\$ 2,961,290	\$ 2,041,266	\$ 638,046	\$ 5,640,602

The accompanying Notes are an integral part of these financial statements

# Michigan Theater Foundation, Inc.

## Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Years ended September 30	2023	2022
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (1,156,018)	\$ 152,479
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	699,683	700,089
Lease expense	5,204	-
Reinvested interest	(55,067)	-
Loss on disposition of equipment	-	1,562
Amortization of net present value discount	(23,124)	(6,428)
Gain on debt forgiveness	-	(538,857)
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	(34,735)	(34,140)
Pledges receivable	199,857	103,615
Grants receivable	(38,875)	241,999
Inventory	(60,822)	(6,057)
Prepaid expenses and other current assets	(40,861)	11,943
Security deposit	-	(3,630)
Accounts payable and accrued expenses	(45,953)	169,112
Accrued compensation and benefits	24,587	36,067
Deferred revenue	433,160	44,608
Net cash provided (used) by operating activities	<u>(92,964)</u>	<u>872,362</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(476,905)	(431,405)
Net purchases of investments	(2,446,774)	-
Net cash used by investing activities	<u>(2,923,679)</u>	<u>(431,405)</u>
<b>Cash Flows From Financing Activities</b>		
Payments on notes payable	(196,450)	(92,367)
Net cash used by financing activities	<u>(196,450)</u>	<u>(92,367)</u>
<b>Net increase (decrease) in Cash and Cash Equivalents</b>	<b>(3,213,093)</b>	<b>348,590</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>4,811,101</b>	<b>4,462,511</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,598,008</b>	<b>\$ 4,811,101</b>
<b>Supplemental Information</b>		
Cash paid for interest	<u>\$ 887</u>	<u>\$ 9,854</u>

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 1 – Nature of Organization and Significant Accounting Policies

*Nature of Foundation.* Michigan Theater Foundation, Inc. ("the Foundation") is a Michigan nonprofit Foundation located in Ann Arbor, Michigan, the purpose of which is to bring together audiences and support to appreciate and advance cinema and the performing arts, measurably benefit the diverse communities it serves, and maintain and protect the historic buildings entrusted to it.

*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.

*Basis of Accounting.* The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

*Cash and Cash Equivalents.* The Foundation considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

*Investments.* The Foundation's investments are stated at fair value. Fair value is 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. The Foundation's management determines the valuation policies utilizing information provided by the investment advisors and custodians. See Fair Value Measurements.

Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

*Fair Value Measurements.* The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

*Level 1* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

*Level 2* Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 1 – Nature of Organization and Significant Accounting Policies (continued)

*Fair Value Measurements (continued).*

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following are descriptions of the valuation methodologies used for assets measured at fair value on a recurring basis:

*Certificates of deposit.* The Foundation values certificates of deposit at fair value by discounting related cash flow based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

*Treasury Bills.* The Foundation values treasury bills with readily determinable market values at fair value as determined by quoted prices on national securities exchanges valued at the closing price on the last business day of the fiscal year.

The valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In general, investments are exposed to various risks, such as interest rate, credit, and overall volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statements of financial position.

*Accounts Receivable.* Accounts receivable are stated net of allowances for uncollectible accounts. At the time accounts receivable are originated, the Foundation considers an allowance for doubtful accounts based on the creditworthiness of the client. The allowance is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future uncollectible amounts. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Foundation on an ongoing basis. Management believes that all accounts receivable are fully collectible at September 30, 2023 and 2022.

*Pledges Receivable.* Pledges receivable are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional. Pledges receivable are stated net of allowances for uncollectible accounts. Management provides for probable uncollectible accounts through a provision for bad debt expenses and an adjustment to the allowance account based on its assessment of the current status of individual pledges. Balances still outstanding after management has used reasonable collection efforts are written off through a reduction to the allowance account and a corresponding reduction to the receivable. The Foundation has recorded an allowance of \$22,000 at September 30, 2023 and 2022.

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 1 – Nature of Organization and Significant Accounting Policies (continued)

*Inventory.* Inventory consists of concession items and retail books for sale and is stated at the lower of cost or net realizable value on a first-in, first-out (FIFO) basis.

*Property and Equipment.* The Foundation capitalizes all expenditures for property and equipment in excess of \$2,500. Property and equipment are recorded at cost for purchased items and at fair market value at the time of receipt for donated items. Depreciation is calculated utilizing the straight-line method over the estimated useful lives of the assets which are currently three to five years for software, five to forty years for equipment, fifteen years for the liquor license, and three to forty years for buildings and improvements. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation accounts, and any resulting gain or loss is recorded in the year of sale or disposal.

*Intangible Assets.* Intangible assets consist of the Foundation's trademark. Definite-lived intangible assets are stated at cost if purchased, or at fair value, if donated. Indefinite-lived intangible assets are not amortized, but are tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. The Foundation also evaluates whether circumstances warrant a revision to the remaining estimated useful life of each intangible asset annually. If the Foundation were to determine that a change in the remaining estimated useful life of an intangible asset was necessary, then the remaining carrying amount of the intangible asset would be amortized prospectively over the revised remaining useful life.

*Impairment of Long-Lived Assets.* In the event that facts and circumstances indicate that property and equipment, or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value would be necessary. No impairment losses were recorded during the years ended September 30, 2023 and 2022.

*Right-of-Use Assets and Leases.* The Foundation determines if an arrangement is a lease at inception. Operating leases are included in right-of-use ("ROU") lease assets, current portion of lease obligations, and long term lease obligations on the Foundation's statements of financial position. ROU lease assets represent the Foundation's right to use an underlying asset for the lease term, and lease obligations represent the Foundation's obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. The Foundation's lease does not provide an implicit rate, therefore the Foundation uses a risk free borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The ROU lease asset also includes any lease payments made and excludes lease incentives. The Foundation's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for lease payments are recognized on a straight-line basis over the lease term.

*Basis of Net Asset Presentation.* The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions:

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 1 – Nature of Organization and Significant Accounting Policies (continued)

#### *Basis of Net Asset Presentation (continued).*

*Net Assets Without Donor Restrictions.* Net assets resulting from revenues generated, receiving contributions that have no donor stipulations, providing services, and receiving interest and other income, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

*Net Assets With Donor Restrictions.* Net assets resulting from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated net assets, until the donor restriction expires, that is, until the stipulated time restriction ends or the purpose restriction is accomplished.

#### *Revenue Recognition.*

*Film and Event Sales.* The Foundation presents movies and live events to the public in each of their historical buildings. The Foundation records revenue on ticket sales at the time of purchase by the customer or at the time the event is held if tickets are pre-purchased. The Foundation typically satisfies its performance obligations for film and event sales at the time of the event.

*Concession Sales.* The Foundation offers items for sale to enjoy while viewing movies or shows held at each of their venues. Items include popcorn, candy, snacks, and beverages. The Foundation records revenue on concession sales at the time of purchase by the customer.

*Membership Fees.* Revenue from membership fees is reported at the amount that reflects the consideration to which the Foundation expects to be entitled in exchange for providing the related services. The Foundation recognizes revenue from membership fees as the Foundation satisfies performance obligations under its contracts, which is ratably over the membership term.

*Transaction Price.* The Foundation determines the transaction price based on standard charges for goods and services provided for the years ended September 30, 2023 and 2022. The Foundation has determined that the nature, amount, timing and uncertainty of revenue and cash flows can be affected by returns and refunds, if any.

*Contract Balances.* The following table provides information about the Foundation's receivables and contract liabilities from contracts with customers at September 30:

	<u>2023</u>	<u>2022</u>
Accounts receivable, beginning of year	\$ 49,006	\$ 14,688
Accounts receivable, end of year	\$ 83,741	\$ 49,006
Contract liabilities, beginning of year	\$ 693,128	\$ 648,520
Contract liabilities, end of year	\$ 1,126,288	\$ 693,128

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 1 – Nature of Organization and Significant Accounting Policies (continued)

#### *Revenue Recognition* (continued).

*Accounting Policies and Practical Expedients Elected.* The Foundation is electing to use the right to invoice practical expedient, which allows an entity to recognize revenue in the amount of consideration to which the entity has the right to invoice when the amount that the entity has the right to invoice corresponds directly to the value transferred to the customer. Therefore, the Foundation will apply the invoice practical expedient to performance obligations satisfied over time.

The Foundation's contracts do not include significant financing components.

*Grants and Contributions.* Grants and contributions are recognized when the amounts are received. Donor-restricted grants and contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Grants and contributions that are restricted by the grantor or donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the amounts are recognized.

*Contributed Facilities, Services, and Goods.* Contributed services are recognized if services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Certain other volunteer services are not recorded in these financial statements as they do not meet the criteria for recognition. The Foundation received donated facilities, services, and goods for the year ended September 30, 2023 and 2022. (See Note 11)

*Advertising.* The Foundation expenses advertising costs as incurred. Total advertising expense was \$185,594 and \$117,991 for the years ended September 30, 2023 and 2022, respectively.

*Functional Allocation of Expenses.* Direct expenses have been allocated to the applicable program for which the expenses were incurred. Indirect expenses have been allocated between program and supporting services based on an analysis of personnel time and space utilized for the related activities.

*Income Taxes.* The Foundation is a nonprofit corporation exempt from income taxes as described in Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. The Foundation is subject to unrelated business income tax on its advertising income. No other provision for income taxes has been made.

*Subsequent Events.* The Foundation evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 8, 2024, the date at which the financial statements were available to be issued.

### Note 2 – New Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), with the intended purpose to improve financial reporting of leasing transactions by requiring Foundations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows from leases.

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

### Note 2 – New Accounting Pronouncement (continued)

During the year ended September 30, 2023, the Foundation adopted the requirements of ASU 2016-02 and, as a result, adjusted the presentation of the financial statements accordingly, applying the changes under the effective date method. Under the effective date method, the application date shall be the beginning of the reporting period in which the Foundation first applied ASU 2016-02, which was October 1, 2022. The Foundation has elected the package of practical expedients permitted in ASC Topic 842 and, accordingly, accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the operating leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. In addition, the Foundation does not allocate the consideration between lease and non-lease components. As a result of the adoption of the new lease accounting guidance, the Foundation recognized on October 1, 2022 (a) a lease liability of approximately \$339,577, which represents the present value of the remaining lease payments of approximately \$409,083, discounted using the federal risk free borrowing rate of 3.67%, and (b) a right-of-use asset of approximately \$341,582. This standard did not have a material impact on the Foundation's statements of financial position or cash flows from operations and had no impact on the Foundation's operating results. The most significant impact was the recognition of right-of-use assets and lease obligations for operating leases.

### Note 3 – Fair Value Measurements

The following table summarizes the Foundation's fair value of assets measured on a recurring basis by fair value ("FV") hierarchy as of September 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 1,019,291	\$ -	\$ 1,019,291
Treasury Bills	<u>1,482,550</u>	-	-	<u>1,482,550</u>
	<u>\$ 1,482,550</u>	<u>\$ 1,019,291</u>	<u>\$ -</u>	<u>\$ 2,501,841</u>

*Changes in Fair Value Levels.* The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Foundation evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total net assets available for benefits. For the year ended September 30, 2023, there were no significant transfers in or out of fair value levels.

Investment earnings consisted of the following for they year ended September 30, 2023:

Interest income	<u>\$ 55,067</u>
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# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

### Note 4 – Pledges and Grants Receivable

Pledges and grants receivable are expected to be collected as follows at September 30:

	<u>2023</u>	<u>2022</u>
Due within one year	\$ 586,232	\$ 556,970
Due within one to five years	547,242	710,395
	<u>1,133,474</u>	<u>1,267,365</u>
Less allowance for uncollectible pledges	(22,000)	(22,000)
Less unamortized present value discount	(91,258)	(87,291)
	<u>\$ 1,020,216</u>	<u>\$ 1,158,074</u>

Pledges and grants receivable due in more than one year are recognized at fair value using present value techniques and a discount rate that ranges between 3.25% and 8.5%.

### Note 5 – Property and Equipment

Property and equipment consists of the following at September 30:

	<u>2023</u>	<u>2022</u>
State Theater condominium	\$ 5,909,533	\$ 5,808,093
Historic Theater improvements	7,501	7,501
Building improvements	8,148,880	7,792,750
Machinery and equipment	3,459,971	3,414,179
Computer equipment and software	66,300	-
Liquor license	41,659	41,659
	<u>17,633,844</u>	<u>17,064,182</u>
Less accumulated depreciation	(8,094,161)	(7,394,478)
	<u>9,539,683</u>	<u>9,669,704</u>
Construction in progress	-	146,265
Liquor license not in service	7,658	-
Net property and equipment	<u>\$ 9,547,341</u>	<u>\$ 9,815,969</u>

Depreciation expense for the years ended September 30, 2023 and 2022 was \$699,683 and \$700,089, respectively.

### Note 6 – Right-of-Use Assets

Right-of-use assets consist of the following at September 30, 2023:

Right-of-use assets under operating lease (facility)	\$ 341,582
Less accumulated amortization	(29,943)
Net right-of-use assets	<u>\$ 311,639</u>

Annual amortization for the year ended September 30, 2023 was \$29,943.

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 7 – Line of Credit

In April 2021, the Foundation entered into a \$1,000,000 revolving line of credit agreement with Bank of Ann Arbor. The agreement, renewed in September 2022, bears interest at 5.5% and matures in September 2024. There are no outstanding borrowings as of the years ended September 30, 2022 and 2023.

### Note 8 – Leases and Commitments

Operating lease obligations consist of the following at September 30, 2023:

Operating lease agreement for office space; monthly payment of \$3,131 as of September 30, 2023; 101-month lease term expiring June 2032	<u>\$ 316,843</u>
Total, net of unamortized present value discount	<b>316,843</b>
Less current portion	<u>(26,788)</u>
Operating lease obligations, net of current portion, net of unamortized present value discount	<u><b>\$ 290,055</b></u>
Weighted average discount rate at September 30	<b>3.67%</b>
Weighted average remaining lease term at September 30	<b>8.75</b>

Future annual lease payments required under operating leases are as follows at September 30, 2023:

Year ended September 30	Lease obligations	Present value discount	Net of unamortized discount
2024	\$ 37,856	\$ (11,068)	\$ 26,788
2025	38,992	(10,046)	28,946
2026	40,162	(8,942)	31,220
2027	41,367	(7,753)	33,614
2028	42,608	(6,474)	36,134
Thereafter	171,345	(11,204)	160,141
Total	<u>\$ 372,330</u>	<u>\$ (55,487)</u>	<u>\$ 316,843</u>

The Foundation also leases office equipment under noncancelable operating lease agreements that expire in December 2023 and March 2025. As of September 30, 2022, monthly rent payments were \$751 and \$218 for the office equipment. Total rent expense under these leases was \$11,628 for each of the years ended September 30, 2023 and 2022. Because total payments for the aforementioned leases are not material to the financial statements, these leases are not accounted for under ASC 842.

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

### Note 9 – Notes Payable

Notes payable consisted of the following at September 30:

	<u>2023</u>	<u>2022</u>
Note payable ("EIDL loan") to the U.S. Small Business Administration ("SBA") under Section 7(b) of the Small Business Act; interest is at 2.75% with monthly payments of \$641 commencing May 2021 and payable through May 2051, collateralized by the Foundation's property and equipment.	-	\$ 148,430
Note payable to the Bank of Ann Arbor, interest is at 4.375% with monthly principal and interest payments of \$5,822 commencing August 2021 and payable through January 2028 at which time all remaining principal and interest is due. The note is collateralized by the building and improvements and assignment of rents.	-	48,020
	-	196,450
Less current portion	-	(51,676)
Net of current portion	<u>\$ -</u>	<u>\$ 144,774</u>

### Note 10 – Net Assets with Donor Restrictions

The following summarizes the balances of net assets with donor restrictions at September 30, 2023:

	<u>October 1, 2022 Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>September 30, 2023 Balance</u>
<i>Time restrictions:</i>				
General operating pledges and grants	\$ 584,816	\$ 346,900	\$ 286,559	\$ 645,157
State Theater pledges	573,258	-	198,199	375,059
	<u>\$ 1,158,074</u>	<u>\$ 346,900</u>	<u>\$ 484,758</u>	<u>\$ 1,020,216</u>

The following summarizes the balances of net assets with donor restrictions at September 30, 2022:

	<u>October 1, 2021 Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>September 30, 2022 Balance</u>
<i>Time restrictions:</i>				
General operating pledges	\$ 443,064	\$ 522,819	\$ 381,067	\$ 584,816
State Theater pledges	812,196	-	238,938	573,258
	<u>\$ 1,255,260</u>	<u>\$ 522,819</u>	<u>\$ 620,005</u>	<u>\$ 1,158,074</u>

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 11 – Special Event

The Foundation derived a net loss from the following special fundraising event during the year ended September 30, 2023:

	<u>Spring Benefit</u>
Ticket sales	\$ 33,274
Direct costs	<u>(43,148)</u>
	<u>(9,874)</u>

Additionally, the Foundation raised \$102,521 in sponsorships and donations as a result of this event.

The Foundation did not hold a fundraising event during the year ended September 30, 2022.

### Note 12 – In-kind Contributions

The Foundation received the following in-kind contributions during the years ended September 30:

	<u>2023</u>	<u>2022</u>	<u>Usage</u>
Donated facilities	\$ 87,100	\$ 174,200	General & Admin
Donated HR services	5,596	21,000	General & Admin
Donated miscellaneous goods	2,848	1,784	General & Admin
	<u>\$ 95,544</u>	<u>\$ 196,984</u>	

The Foundation received donated facilities which were valued using like-kind methodology for space per square foot for properties in the Ann Arbor, Michigan area. Donated HR services were valued using estimated average hourly wage for identical services using pricing data of similar services under a "like-kind" methodology, considering the utility services at the time of the contribution. Donated HR services were used for general and administrative use. Donated miscellaneous goods were valued using estimated average US prices for identical or similar products using pricing data of similar products under a "like-kind" methodology, considering the utility of the goods at the time of the contribution. No in-kind contributions were restricted. The Foundation does not sell donated gifts in kind and only uses services, goods, and facilities for its own program or supporting service activities.

### Note 13 – Retirement Plan

The Foundation has a 401(k) plan covering staff who have completed more than 60 days of service, and have reached his or her 18th birthday. Employees can make contributions to the plan up to \$19,500, with an additional \$6,500 catch-up contribution allowed for those turning age 50 or older. The Foundation matches dollar for dollar on the first 3% of an employee's contribution, and \$0.50 on the dollar for the next 2% of an employee's contribution. Employees are immediately vested in employer contributions. The Foundation's contributions during the years ended September 30, 2023 and 2022 totaled \$33,277 and \$33,740, respectively.

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 14 – IATSE Union Employees

All International Alliance of Theatrical Stage Employees ("IATSE") staff receive health and retirement benefits according to the negotiated IATSE agreement through the IATSE Annuity Fund ("the Fund"). The Fund is a defined contribution plan that provides employees with a retirement savings program, which requires annual contributions from the Foundation. The Foundation's contribution to the Fund for the years ended September 30, 2023 and 2022 totaled \$103,913 and \$88,334, respectively. Based on the hold harmless clause in the union contract, if the Fund goes bankrupt, the Foundation has no obligation to fund the union annuity.

### Note 15 – Liquidity and Availability of Resources

The Foundation receives significant contributions and promises to give that are restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation has a liquidity policy to maintain current financial assets less current liabilities at a minimum of three months budgeted operating expenses. To achieve this target, the Foundation forecasts its future cash flows and monitors its liquidity and reserves at least quarterly. During the years ended September 30, 2023 and 2022, the level of liquidity and reserves was managed within the policy

The Foundation's financial assets available for general expenditures within one year are as follows at September 30:

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,598,008	\$ 4,811,101
Investments	2,501,841	-
Accounts receivable	83,741	49,006
Pledges and grants receivable	1,020,216	1,158,074
	<u>5,203,806</u>	<u>6,018,181</u>
Less amounts not available to be used within one year:		
Pledges for long-term purposes	<u>(433,984)</u>	<u>(601,104)</u>
	<u>(433,984)</u>	<u>(601,104)</u>
Financial assets available for general expenditures within one year	<u>\$ 5,637,790</u>	<u>\$ 6,619,285</u>

All of the Foundation's net asset restrictions are generally released within the next fiscal year, with the exception of donor pledges for long-term purposes. The Foundation anticipates that all net asset restrictions as of September 30, 2023, other than donor pledges for long-term purposes, will be fully released during the next fiscal year.

The Foundation has a revolving line of credit in the amount of \$1,000,000 at September 30, 2023, which it could draw upon if needed, as further described in Note 4.

# Michigan Theater Foundation, Inc.

## Notes to Financial Statements

September 30, 2023 and 2022

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### Note 16 – Beneficial Interest in Assets Held at Community Foundation

The Ann Arbor Area Community Foundation ("AAACF") acts under an arrangement as a depository for gifts, conveyances, and other transfers intended to assist Michigan Theater Foundation, Inc. in achieving its goals and purposes. At September 30, 2023 and 2022, AAACF held donations for the benefit of Michigan Theater Foundation, Inc. of \$549,448 and \$521,036, respectively. As AAACF holds variance power over these assets and, therefore, has the authority to redirect these funds, these amounts are not recorded as assets of the Foundation.

### Note 17 – Concentrations

*Bank Deposits.* At certain times during the years ended September 30, 2023 and 2022, the Foundation maintained cash balances in excess of federally insured limits. Management believes the risk of loss on these amounts is minimal.

*Geographical.* The Foundation receives a substantial amount of its operating support and revenue from within the Ann Arbor, Michigan area.

*Support and Revenue Concentration.* During the year ended September 30, 2022, the Foundation had one grantor who comprised approximately 15% of total support and revenue.