

**Consolidated Financial Statements and
Supplementary Information**

ATLANTIC CENTER FOR THE ARTS, INC.

December 31, 2015 and 2014

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(With Independent Auditor's Report Thereon)

ATLANTIC CENTER FOR THE ARTS, INC.

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Independent Auditor's Report

To the Board of Trustees
Atlantic Center For The Arts, Inc.:

We have audited the accompanying consolidated financial statements of Atlantic Center for the Arts, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Center for the Arts, Inc. as of December 31, 2015 and 2014, 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.

Other Matters

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements of Atlantic Center for the Arts, Inc. taken as a whole. The accompanying schedule of Federal, State and County financial assistance is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2016, on our consideration of Atlantic Center for the Arts, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Schatz, Tschagg, Whitcomb, Mitchell & Shulman, LLP

Altamonte Springs, Florida
April 7, 2016

ATLANTIC CENTER FOR THE ARTS, INC.

Consolidated Statements of Financial Position

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 136,790	218,663
Accounts receivable	7,526	18,300
Grants receivable	202,612	553,635
Pledges receivable (note 2)	117,323	163,195
Inventories	7,666	5,960
Prepaid expenses and other assets	29,348	30,291
Investments (notes 3 and 5)	3,451,759	3,172,801
Property and equipment, net (note 4)	<u>4,895,967</u>	<u>5,087,708</u>
Total assets	<u>\$ 8,848,991</u>	<u>9,250,553</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 73,961	100,654
Deferred revenues	187,516	221,596
Line of credit (note 6)	<u>682,334</u>	<u>532,033</u>
Total liabilities	943,811	854,283
Net assets:		
Unrestricted:		
Undesignated	(152,897)	160,578
Investment in property and equipment, net	<u>4,779,283</u>	<u>4,971,024</u>
Total unrestricted net assets	4,626,386	5,131,602
Temporarily restricted (note 5)	296,100	286,100
Permanently restricted (note 5)	<u>2,982,694</u>	<u>2,978,568</u>
Total net assets	<u>7,905,180</u>	<u>8,396,270</u>
Total liabilities and net assets	<u>\$ 8,848,991</u>	<u>9,250,553</u>

See accompanying notes to financial statements.

ATLANTIC CENTER FOR THE ARTS, INC.

Consolidated Statement of Activities

Year ended December 31, 2015

	ACA Unrestricted	ACA Temporarily Restricted	ACA Permanently Restricted	ACA Total	Images Unrestricted	Total
Support and revenues:						
Support:						
Grants:						
Governmental	\$ 163,697	\$ 25,000	\$ -	\$ 188,697	\$ 62,867	\$ 251,564
Foundations	39,435	-	-	39,435	-	39,435
Contributions and bequests	117,113	10,000	4,126	131,239	46,840	178,079
Fund raising and special events, net	106,998	-	-	106,998	21,789	128,787
Total support	<u>427,243</u>	<u>35,000</u>	<u>4,126</u>	<u>466,369</u>	<u>131,496</u>	<u>597,865</u>
Revenues:						
Contract services	164,052	-	-	164,052	-	164,052
Program fees	122,575	-	-	122,575	89,623	212,198
Investment loss, net	(33,944)	-	-	(33,944)	-	(33,944)
Rental income, net	122,572	-	-	122,572	-	122,572
Gallery and gift shop sales, net	185,961	-	-	185,961	-	185,961
Other income	29,071	-	-	29,071	32,802	61,873
Total revenues	<u>590,287</u>	<u>-</u>	<u>-</u>	<u>590,287</u>	<u>122,425</u>	<u>712,712</u>
Net assets released from restrictions:						
Satisfaction of program restrictions	25,000	(25,000)	-	-	-	-
Total support and revenues	<u>1,042,530</u>	<u>10,000</u>	<u>4,126</u>	<u>1,056,656</u>	<u>253,921</u>	<u>1,310,577</u>
Expenses:						
Program services:						
Master artist in residence	464,514	-	-	464,514	-	464,514
Community arts	271,386	-	-	271,386	-	271,386
Festival expenses	-	-	-	-	187,106	187,106
Total program services	<u>735,900</u>	<u>-</u>	<u>-</u>	<u>735,900</u>	<u>187,106</u>	<u>923,006</u>
Supporting services:						
General administration	365,769	-	-	365,769	66,815	432,584
Facility rental operations	81,762	-	-	81,762	-	81,762
Gallery operations	236,597	-	-	236,597	-	236,597
Fund raising and special events	127,718	-	-	127,718	-	127,718
Total expenses	<u>1,547,746</u>	<u>-</u>	<u>-</u>	<u>811,846</u>	<u>253,921</u>	<u>1,065,767</u>
Change in net assets	(505,216)	10,000	4,126	(491,090)	-	(491,090)
Net assets, beginning of year	5,131,602	286,100	2,978,568	8,396,270	-	8,396,270
Net assets, end of year	<u>\$ 4,626,386</u>	<u>\$ 296,100</u>	<u>\$ 2,982,694</u>	<u>\$ 7,905,180</u>	<u>\$ -</u>	<u>\$ 7,905,180</u>

See accompanying notes to financial statements.

ATLANTIC CENTER FOR THE ARTS, INC.

Consolidated Statement of Activities

Year ended December 31, 2014

	ACA Unrestricted	ACA Temporarily Restricted	ACA Permanently Restricted	ACA Total	Images Unrestricted	Total
Support and revenues:						
Support:						
Grants:						
Governmental	\$ 234,397	\$ 25,000	\$ 240,000	\$ 499,397	\$ 68,582	\$ 567,979
Foundations	138,912	-	-	138,912	-	138,912
Contributions and bequests	169,805	-	52,191	221,996	48,688	270,684
Fund raising and special events, net	141,090	-	-	141,090	17,342	158,432
Total support	<u>684,204</u>	<u>25,000</u>	<u>292,191</u>	<u>1,001,395</u>	<u>134,612</u>	<u>1,136,007</u>
Revenues:						
Contract services	164,052	-	-	164,052	-	164,052
Program fees	111,507	-	-	111,507	82,236	193,743
Investment income, net	354,315	-	-	354,315	-	354,315
Rental income, net	111,493	-	-	111,493	-	111,493
Gallery and gift shop sales, net	152,538	-	-	152,538	-	152,538
Other income	6,864	-	-	6,864	18,335	25,199
Total revenues	<u>900,769</u>	<u>-</u>	<u>-</u>	<u>900,769</u>	<u>100,571</u>	<u>1,001,340</u>
Net assets released from restrictions:						
Satisfaction of program restrictions	<u>77,180</u>	<u>(77,180)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,662,153</u>	<u>(52,180)</u>	<u>292,191</u>	<u>1,902,164</u>	<u>235,183</u>	<u>2,137,347</u>
Expenses:						
Program services:						
Master artist in residence	471,617	-	-	471,617	-	471,617
Community arts	266,311	-	-	266,311	-	266,311
Festival expenses	-	-	-	-	159,293	159,293
Total program services	<u>737,928</u>	<u>-</u>	<u>-</u>	<u>737,928</u>	<u>159,293</u>	<u>897,221</u>
Supporting services:						
General administration	407,662	-	-	407,662	75,890	483,552
Facility rental operations	63,116	-	-	63,116	-	63,116
Gallery operations	192,653	-	-	192,653	-	192,653
Fund raising and special events	96,606	-	-	96,606	-	96,606
Total expenses	<u>1,497,965</u>	<u>-</u>	<u>-</u>	<u>1,497,965</u>	<u>235,183</u>	<u>1,733,148</u>
Change in net assets	164,188	(52,180)	292,191	404,199	-	404,199
Net assets, beginning of year	<u>4,967,414</u>	<u>338,280</u>	<u>2,686,377</u>	<u>7,992,071</u>	<u>-</u>	<u>7,992,071</u>
Net assets, end of year	<u>\$ 5,131,602</u>	<u>\$ 286,100</u>	<u>\$ 2,978,568</u>	<u>\$ 8,396,270</u>	<u>\$ -</u>	<u>\$ 8,396,270</u>

See accompanying notes to financial statements.

ATLANTIC CENTER FOR THE ARTS, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (491,090)	\$ 404,199
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Unrealized loss (gain) on investments	158,198	(299,777)
Depreciation	245,879	247,556
Cash provided by (used for) changes in:		
Accounts receivable	10,774	(7,483)
Grants receivable	351,023	(414,574)
Pledges receivable	(4,128)	(52,191)
Due from related party	-	1,972
Inventories	(1,706)	4,582
Prepaid expenses	943	222
Accounts payable and accrued expenses	(26,693)	50,536
Due to related party	-	(1,500)
Deferred revenue	(34,080)	34,646
Net cash provided by (used for) operating activities	<u>209,120</u>	<u>(31,812)</u>
Cash flows from investing activities:		
Investments purchased, sold, or matured, net	(437,156)	210,571
Acquisition of property and equipment	(54,138)	(62,724)
Net cash (used for) provided by investing activities	<u>(491,294)</u>	<u>147,847</u>
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes:		
Permanently restricted master artists endowment fund	50,000	55,171
Proceeds from line of credit	210,000	-
Repayments on line of credit	(59,699)	(83,905)
Net cash provided by (used for) financing activities	<u>200,301</u>	<u>(28,734)</u>
Net (decrease) increase in cash and cash equivalents	(81,873)	87,301
Cash and cash equivalents, beginning of year	<u>218,663</u>	<u>131,362</u>
Cash and cash equivalents, end of year	<u>\$ 136,790</u>	<u>\$ 218,663</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 14,302</u>	<u>\$ 16,095</u>

See accompanying notes to financial statements.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies

- (a) **Organization and Operations** - Atlantic Center For The Arts, Inc. (ACA) is a not-for-profit, tax-exempt corporation organized under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. The Center provides for and promotes the arts and humanities in all forms, including the visual and performing arts and cultural education through instruction by master artists in residence and other community arts programs. ACA operates in New Smyrna Beach, Florida. The Center also operates another entity called Images: A Festival of the Arts, Inc. (“Images” and henceforth referred to collectively herewith Atlantic Center for the Arts, Inc. as the “Center”), which is also a not-for-profit, tax-exempt corporation organized under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. The management of the Center operates the annual art festival (Festival) in New Smyrna Beach, FL, which is governed by the Center’s board of trustees. Financial activity for the Festival is consolidated for the purposes of a financial statement presentation with that of the Center, to make the most efficient use of donor and taxpayer funding.
- (b) **Basis of Presentation** - The accompanying consolidated financial statements have been prepared on the accrual basis and represent the financial position and results of operations of the Center. The accompanying consolidated financial statements include the accounts of Atlantic Center for the Arts, Inc. and Images, A Festival of the Arts, Inc., which has been consolidated due to the level of control exercised by the Center, collectively referred to as the Center. All significant inter-company accounts and transactions have been eliminated in consolidation.

The Center has adopted the provisions of Financial Accounting Standards Board ASC 958, Accounting for Contributions Received and Contributions Made and Financial Statements for Not-for-Profit Organizations.

These consolidated financial statements are prepared on an entity-wide basis, focusing on The Center as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by aggregating all funds into one set of financial statements and classifying fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted or unrestricted as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by The Center.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(1) **Organization and Summary of Significant Accounting Policies (Continued)**

(b) *Basis of Presentation (Continued)*

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Center and/or the passage of time. Donor-restricted contributions whose restrictions are met in the same year are reported as unrestricted support in the accompanying statements of activities.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. The Center reports donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

- (c) *Contributions* - The Center reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

The Center reports gifts of property, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service and/or construction costs have been incurred.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies (Continued)

- (d) **Contributed Services** - During the years ended December 31, 2015 and 2014, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.
- (e) **Cash and Cash Equivalents** - Except for permanently restricted net assets and assets restricted to investment in land, building, and other capital projects, the Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
- (f) **Inventories** - Inventory consists of gift shop merchandise, linen supplies, and art books. Inventory is stated at lower of cost (determined by specific identification if purchased and by fair value at the date of donation if donated) or market.
- (g) **Unconditional Promises to Give** - Unconditional promises to give are recognized as revenues in the period received. Pledges are discounted, using a market discount rate, to present value for collections expected in future years. Accretion of the discount in subsequent years is also recorded as contribution revenue.
- (h) **Investments** - Investments are stated at fair value. To calculate realized gain or loss on the disposition of investments, cost is determined by the first-in, first-out method for common stock funds and by specific identification for all other investments. All gains and losses arising from the sale or other disposition of investments and ordinary income from investments are accounted for as unrestricted revenue unless such income is restricted for a specific purpose by the donor of the related investment.
- (i) **Endowments** - The Board of Trustees of the Center has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets until

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies (Continued)

(i) *Endowments (Continued)*

those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by FUPMIFA. Any amount not appropriated for expenditure will be reclassified, subject to the original endowment restrictions imposed by the donor. In accordance with FUPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy the endowment assets are invested in a manner that focuses on long-term capital appreciation while achieving predictable and modest current income requirements.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policies and How the Investment Objectives Relate to Spending Policies

Endowments are established to preserve principal and generate an income stream to support the purpose of the funds held. A spending policy establishes a reasonable, sustainable, consistent and predictable expenditure level which enables the Center to use endowment earnings to support its operations, while ensuring that the principal value of the endowment is maintained and protected from the effects of inflation.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies (Continued)

(i) *Endowments (Continued)*

Spending Policies and How the Investment Objectives Relate to Spending Policies
(Continued)

The Center has established a policy that investment income from endowments are used to support its operations. Investment income from endowments to be used to support its operations is determined by investment earnings on endowments, net of any realized gains or losses. The original principal in the restricted endowment is invested in perpetuity and thus is not available to fund any draws.

- (j) *Property and Equipment*** - The Center capitalizes all expenditures over \$1,000 for property and equipment acquisitions. The fair value of donated assets is similarly capitalized and recognized as support.

Land, land improvements, and artwork are stated at cost for purchased assets and at fair value at date of donation for donated assets. Buildings and building improvements, furniture, fixtures and equipment, and vehicles are stated at cost for purchased assets and at fair value for donated assets less accumulated depreciation. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and building improvements	3 – 30 years
Furniture, fixtures and equipment	3 – 10 years
Vehicles	5 years

- (k) *Commitment, Contingencies and Concentrations*** - Financial instruments which potentially expose the Center to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consist of cash and cash equivalents (primarily demand deposits), investments in United States government securities, and investments in short-term cash funds. Substantially all of the cash and cash equivalent accounts and short-term cash funds are on deposit or held in trust at high quality financial institutions, which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Center has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk with respect to its cash and cash equivalents.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies (Continued)

- (l) **Functional Allocation of Expenses** - The costs of providing the various programs and other activities of the Center have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- (m) **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.
- (n) **Income Taxes** - The Center is exempt from federal income tax under provision of Section 501(c)(3) of the Internal Revenue Code. In addition, the Center has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Consequently, no provision for income taxes has been included in the accompanying financial statements.

The Center adopted provisions of the Income Tax Topic of the ASC. These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statements of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2015, the Center had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Under Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification 740, an entity's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed. At December 31, 2015, the Center's tax years that remain subject to examination are 2012 - 2014.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies (Continued)

- (o) **Revenue Recognition** - The Center rents portions of its facilities to unaffiliated individuals and organizations on a short-term day-to-day basis. Revenue from these activities are recognized when the event takes place.
- (p) **Subsequent Events** - In preparing these financial statements, the Center has evaluated subsequent events and transactions for potential recognition and disclosure through April 7, 2016, which is the date the financial statements were available to be issued.
- (q) **Reclassifications** - Certain amounts in the 2014 financial statements were reclassified to conform to the 2015 presentation.

(2) Pledges Receivable

Pledges receivable, net of discount to present value (at a rate of 4%), are as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 60,000	60,000
Receivable in one to five years	60,000	110,000
	<u>120,000</u>	<u>170,000</u>
Less discount to present value	(2,677)	(6,805)
Pledges receivable, net	<u>\$ 117,323</u>	<u>163,195</u>

(3) Investments

The Center maintains an investment portfolio that includes holdings for an endowment fund, as well as in unrestricted investments. These investments are stated at fair value.

The Center follows the accounting standards for fair value measurement, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements of assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(3) Investments (Continued)

Fair value is defined under “Fair Value Measurements and Disclosures,” FASB Accounting Standards Codification Topic 820 (Topic 820) as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Topic 820 also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels of inputs to the valuation methodology are:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3: inputs that are unobservable (for example, cash flow modeling based on assumptions)

The Center did not change its valuation techniques during the year and continues to use Level 1 inputs to measure the fair value of its investments.

The following table summarizes the valuation of the Center’s financial assets measured at fair value on a recurring basis as of December 31, 2015 and 2014, based on the level of input utilized to measure fair value:

December 31, 2015:	<u>Cost</u>	<u>Market Value</u>	<u>Gross Unrealized Gain (Loss)</u>
Unrestricted investments:			
Money market funds	\$ 23,396	23,396	-
Common stocks	39,061	87,082	48,021
Exchange traded and closed-end funds	114,497	193,185	78,688
Corporate fixed income	32,117	37,770	5,653
	<u>\$ 209,072</u>	<u>341,433</u>	<u>132,362</u>

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(3) Investments (Continued)

Investments restricted to temporary endowments:

Money market funds	\$ 4,488	4,488	-
Common stocks	<u>235,452</u>	<u>377,030</u>	<u>141,578</u>
	<u>\$ 239,940</u>	<u>381,518</u>	<u>141,578</u>

Investments restricted to permanent endowments:

Money market funds	\$ 399,823	399,823	-
Common stocks	1,247,722	1,496,710	248,987
Preferred stock	124,644	155,147	30,502
Exchange traded and closed-end funds	521,094	553,654	32,560
Corporate fixed income	<u>105,271</u>	<u>123,474</u>	<u>18,203</u>
	<u>2,398,555</u>	<u>2,728,807</u>	<u>330,252</u>
Total	<u>\$ 2,847,566</u>	<u>3,451,759</u>	<u>604,192</u>

December 31, 2014:	<u>Cost</u>	<u>Market Value</u>	<u>Gross Unrealized Gain (Loss)</u>
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Unrestricted investments:

Money market funds	\$ 31,496	31,496	-
Common stocks	42,537	93,680	51,143
Exchange traded and closed-end funds	114,497	197,301	82,804
Corporate fixed income	<u>32,117</u>	<u>37,625</u>	<u>5,508</u>
	<u>\$ 220,647</u>	<u>360,102</u>	<u>139,455</u>

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(3) Investments (Continued)

Investments restricted to temporary endowments:

Money market funds	\$ 5,124	5,124	-
Common stocks	<u>246,319</u>	<u>326,849</u>	<u>80,530</u>
	<u>\$ 251,443</u>	<u>331,973</u>	<u>80,530</u>

Investments restricted to permanent endowments:

Money market funds	\$ 161,547	161,547	-
Common stocks	1,130,611	1,578,065	447,454
Preferred stock	89,677	114,025	24,348
Exchange traded and closed-end funds	389,104	437,700	48,596
Corporate fixed income	<u>167,371</u>	<u>189,389</u>	<u>22,018</u>
	<u>1,938,310</u>	<u>2,480,726</u>	<u>542,416</u>
Total	<u>\$ 2,410,400</u>	<u>3,172,801</u>	<u>762,401</u>

The components of total investment return as of December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 105,966	106,290
Realized gain (loss) on investments	46,645	(24,983)
Net unrealized (loss) gain on investments reported at fair value	(158,198)	299,777
Investment fees	<u>(28,357)</u>	<u>(26,769)</u>
Total	<u>\$ (33,944)</u>	<u>354,315</u>

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(4) Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 1,040,426	1,040,426
Buildings and building improvements	7,912,820	7,897,123
Furniture, fixtures, and equipment	461,586	461,586
Vehicles	27,712	27,712
	<u>9,480,985</u>	<u>9,426,847</u>
Less: accumulated depreciation	<u>(4,928,118)</u>	<u>(4,682,239)</u>
	4,552,867	4,744,608
Artwork	<u>343,100</u>	<u>343,100</u>
Property and equipment, net	<u>\$ 4,895,967</u>	<u>5,087,708</u>

(5) Restricted Net Assets

Temporarily restricted net assets are restated for the following purpose at December 31:

	<u>2015</u>	<u>2014</u>
For operations at Arts on Douglas	\$ 261,100	261,100
Scholarships for Teen Writing Residency	10,000	-
Artist residencies (NEA)	<u>25,000</u>	<u>25,000</u>
Total temporarily restricted net assets	<u>\$ 296,100</u>	<u>286,100</u>

Permanently restricted net assets are restricted as follows at December 31:

	<u>2015</u>	<u>2014</u>
Investment in perpetuity, the income from which is expendable to support:		
Harris House activities	\$ 29,850	29,850
Program activities – state endowed	1,854,647	1,854,647
Master artist - writers	690,000	690,000
Master artist honorariums	287,387	287,387
Artwork	<u>116,684</u>	<u>116,684</u>
Total permanently restricted net assets	<u>\$ 2,978,568</u>	<u>2,978,568</u>

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(5) Permanently Restricted Net Assets (Continued)

Permanently restricted net assets include various endowments established to support the Center's activities. Four of the endowment accounts were established through the State of Florida endowment program. The State of Florida has provided four grants totaling \$960,000. The Center matched these with contributions totaling \$1,440,000. The income from these endowments can only be used to support program activities. The value of the three state funded endowments shall be maintained at no less than \$2,400,000 at all times. Failure of the Center to adhere to these provisions could result in termination of the State's grant and reversion of the principal to the grantor agency.

(6) Line of Credit

The Center has a \$1,000,000 line of credit with a bank with interest payable monthly at the bank's prime rate less 1.0%. As of December 31, 2015 and 2014, \$682,334 and \$532,033, respectively, was outstanding under this line of credit, collateralized by certain investments and cash on hand.

(7) Retirement

The Center has a retirement plan pursuant to Section 403(b) of the Internal Revenue Code, whereby participants may contribute a percentage of compensation, but not in excess of the maximum amount allowed under the Code. The plan provides for a discretionary matching contribution by the Center, and during 2015 and 2014, the Center made matching contributions of \$16,491 and \$8,294, respectively.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(8) Endowments

In accordance with accounting standards relating to endowments, the Center had the following donor-restricted endowment-related activities during the years ended December 31, 2015 and 2014, classified as permanently restricted:

	<u>2015</u>	<u>2014</u>
Donor restricted endowment funds		
January 1	\$ 2,480,726	\$ 2,419,502
Support – contributions	290,000	60,000
Investment income:		
Dividends and interest	89,005	90,027
Realized gains on sale of investments, net	41,003	(23,920)
Unrealized gains on investments	(234,389)	156,717
Use of unrestricted earnings	(148,496)	(221,600)
Donor-restricted endowment funds		
December 31	<u>\$ 2,728,807</u>	<u>\$ 2,480,726</u>

(9) Related Party Transactions

On January 1, 1999, a corporation owned by a member of the Board of Trustees and the Center's founder donated a building and various equipment with a fair market value at the date of donation of \$303,515 to the Center.

In addition, the corporation provided all the funds necessary to renovate the building to accommodate the Center. The Center agreed to allow the corporation to retain the right to share the building with the Center to operate a commercial art gallery for a period of two years beginning February 1, 1999, with the corporation retaining an option to continue using the space for each of the following three years, renewable for consecutive one year periods.

The Center provides minimal bookkeeping services at no charge to the art gallery. Operating expenses of the art gallery are initially paid by the Center, and the art gallery reimburses the Center on a monthly basis. Expenses relating to the maintenance and operation of the building are divided between the art gallery and the Center based on occupancy percentages.

ATLANTIC CENTER FOR THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(9) Related Party Transactions (Continued)

On January 1, 2014, the art gallery ceased operation, and all of the assets of the art gallery were contributed to the Center. As such, the Center began operations at this location as a traditional art gallery for the purposes of supporting its artistic mission in the community. Any operating deficits of the gallery may be supported by the Community Arts Endowment (temporarily restricted).

During the year ended December 31, 2004, the Board of Trustees of the Center entered into an agreement with Images. The Center's board agreed to carry out the mission of Images by serving as its Board of Directors. In addition, the Center agreed to manage the operations of the entity. As the entities share the same board of trustees, management considers the two entities financially inter-related and is therefore consolidated into the financial statements of the Center.

SUPPLEMENTARY INFORMATION

ATLANTIC CENTER FOR THE ARTS, INC.

Schedule of Federal, State, and County Financial Assistance

Year ended December 31, 2015

<u>State of Florida Grantor Program Title</u>	<u>Grant Number</u>	<u>Year Awarded</u>	<u>Funding Period</u>	<u>Total Grant Award</u>	<u>2015 Receipts</u>
Federal Awards:					
National Endowment for the Arts		2013	1/1/14 - 12/31/14	\$ 25,000	5,000
National Endowment for the Arts		2014	1/1/15 - 12/31/15	25,000	20,000
National Endowment for the Arts		2015	1/1/16 - 12/31/16	25,000	-
Total Federal Awards				<u>\$ 75,000</u>	<u>25,000</u>
State of Florida, Department of State- Division of Cultural Affairs					
General program support - ACA	15.6.114.468	2014	7/1/14 - 6/30/15	\$ 145,886	109,415
General program support - Images	15.6.105.495	2014	7/1/14 - 6/30/15	17,815	17,815
General program support - ACA	16.6.114.271	2015	7/1/15 - 6/30/16	71,574	17,893
General program support - Images	16.6.105.272	2015	7/1/15 - 6/30/16	10,409	2,602
Total State Awards				<u>\$ 245,684</u>	<u>147,725</u>
County of Volusia Parks, Recreation, & Culture Division					
Community Cultural Grant Atlantic Center for the Arts, Inc.		2014	7/1/14 - 6/30/15	\$ 75,213	56,410
Cultural institutions program Images: A Festival of the Arts, Inc.		2014	7/1/14 - 6/30/15	20,267	15,200
Community Cultural Grant Atlantic Center for the Arts, Inc.		2015	7/1/15 - 6/30/16	72,374	18,093
Cultural institutions program Images: A Festival of the Arts, Inc.		2015	7/1/15 - 6/30/16	22,458	5,614
Total County Awards				<u>\$ 190,312</u>	<u>95,317</u>
Total City Awards					
City of New Smyrna Beach Community Block Development Grants:					
Youth Mural Project		2013	10/1/13- 9/30/14	\$ 5,048	-
Youth Mural Project #2		2014	10/1/14 - 9/30/15	9,188	6,599
Peace Arts		2015	10/1/15 - 9/30/16	7,039	-
Total City Awards				<u>\$ 21,275</u>	<u>6,599</u>

See accompanying notes to financial statements.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Board of Trustees
Atlantic Center For The Arts, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Atlantic Center for the Arts, Inc., which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Atlantic Center for the Arts, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Atlantic Center for the Arts, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Atlantic Center for the Arts, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Atlantic Center for the Arts, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Schaefer, Tschang, Whitcomb, Mitchell & Shulman, LLP

Altamonte Springs, Florida
April 7, 2016