

**Consolidated Financial Statements and
Supplementary Information**

**ATLANTIC CENTER FOR THE ARTS, INC. &
IMAGES, A FESTIVAL OF THE ARTS, INC.**

December 31, 2016 and 2015

**ATLANTIC CENTER FOR THE ARTS, INC. &
IMAGES, A FESTIVAL OF THE ARTS, INC.**

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Supplementary Information**

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

ATLANTIC CENTER FOR THE ARTS, INC. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

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Independent Auditor's Report

To the Board of Trustees
Atlantic Center for the Arts, Inc. & Images, A Festival of the Arts, Inc.:

We have audited the accompanying consolidated financial statements of Atlantic Center for the Arts, Inc. & Images, A Festival of the Arts, Inc. (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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. & Images, A Festival of the Arts, Inc. as of December 31, 2016 and 2015, 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. & Images, A Festival of 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 27, 2017, on our consideration of Atlantic Center for the Arts, Inc. & Images, A Festival of 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, Tschoy, Whitcomb, Mitchell & Shuilen, LLP

Maitland, Florida
April 27, 2017

ATLANTIC CENTER FOR THE ARTS, INC. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

Consolidated Statements of Financial Position

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 155,680	136,790
Accounts receivable	22,416	7,526
Grants receivable	151,754	202,612
Pledges receivable (note 2)	109,615	117,323
Inventories	5,251	7,666
Prepaid expenses and other assets	27,444	29,348
Land held for sale	66,672	-
Investments (notes 3 and 5)	3,542,086	3,451,759
Property and equipment, net (note 4)	4,750,841	4,895,967
	<u>4,750,841</u>	<u>4,895,967</u>
Total assets	<u>\$ 8,831,759</u>	<u>8,848,991</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 87,501	73,961
Deferred revenues	185,943	187,516
Line of credit (note 6)	677,942	682,334
	<u>677,942</u>	<u>682,334</u>
Total liabilities	951,386	943,811
Net assets:		
Unrestricted:		
Undesignated	(47,578)	(152,897)
Investment in property and equipment, net	4,634,157	4,779,283
	<u>4,634,157</u>	<u>4,779,283</u>
Total unrestricted net assets	4,586,579	4,626,386
Temporarily restricted (note 5)	261,100	296,100
Permanently restricted (note 5)	3,032,694	2,982,694
	<u>3,032,694</u>	<u>2,982,694</u>
Total net assets	<u>7,880,373</u>	<u>7,905,180</u>
Total liabilities and net assets	<u>\$ 8,831,759</u>	<u>8,848,991</u>

See accompanying notes to financial statements.

ATLANTIC CENTER FOR THE ARTS, INC. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

Consolidated Statements of Activities

Year ended December 31, 2016

	<u>ACA Unrestricted</u>	<u>ACA Temporarily Restricted</u>	<u>ACA Permanently Restricted</u>	<u>ACA Total</u>	<u>Images Unrestricted</u>	<u>Total</u>
Support and revenues:						
Support:						
Grants:						
Governmental	\$ 361,424	\$ -	\$ -	\$ 361,424	\$ 73,641	\$ 435,065
Foundations	78,509	-	-	78,509	-	78,509
Contributions and bequests	126,010	-	50,000	176,010	48,045	224,055
Fund raising and special events	289,307	-	-	289,307	17,030	306,337
Total support	<u>855,250</u>	<u>-</u>	<u>50,000</u>	<u>905,250</u>	<u>138,716</u>	<u>1,043,966</u>
Revenues:						
Contract services	164,052	-	-	164,052	-	164,052
Program fees	144,909	-	-	144,909	90,267	235,176
Investment income, net	191,396	-	-	191,396	-	191,396
Rental income	251,200	-	-	251,200	-	251,200
Gallery and gift shop sales	169,165	-	-	169,165	-	169,165
Other income	358	-	-	358	51,556	51,914
Total revenues	<u>921,080</u>	<u>-</u>	<u>-</u>	<u>921,080</u>	<u>141,823</u>	<u>1,062,903</u>
Net assets released from restrictions:						
Satisfaction of program restrictions	35,000	(35,000)	-	-	-	-
Total support and revenues	<u>1,811,330</u>	<u>(35,000)</u>	<u>50,000</u>	<u>1,826,330</u>	<u>280,539</u>	<u>2,106,869</u>
Expenses:						
Program services:						
Master artist in residence	494,665	-	-	494,665	-	494,665
Community arts	291,082	-	-	291,082	-	291,082
Festival expenses	-	-	-	-	222,509	222,509
Total program services	<u>785,747</u>	<u>-</u>	<u>-</u>	<u>785,747</u>	<u>222,509</u>	<u>1,008,256</u>
Supporting services:						
General administration	435,290	-	-	435,290	-	435,290
Facility rental operations	174,130	-	-	174,130	58,030	232,160
Fund raising and special events	228,745	-	-	228,745	-	228,745
Gallery operations	227,225	-	-	227,225	-	227,225
Total expenses	<u>1,851,137</u>	<u>-</u>	<u>-</u>	<u>1,851,137</u>	<u>280,539</u>	<u>2,131,676</u>
Change in net assets	(39,807)	(35,000)	50,000	(24,807)	-	(24,807)
Net assets, beginning of year	4,626,386	296,100	2,982,694	7,905,180	-	7,905,180
Net assets, end of year	<u>\$ 4,586,579</u>	<u>\$ 261,100</u>	<u>\$ 3,032,694</u>	<u>\$ 7,880,373</u>	<u>\$ -</u>	<u>\$ 7,880,373</u>

See accompanying notes to financial statements.

ATLANTIC CENTER FOR THE ARTS, INC. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

Consolidated Statements of Activities

Year ended December 31, 2015

	<u>ACA Unrestricted</u>	<u>ACA Temporarily Restricted</u>	<u>ACA Permanently Restricted</u>	<u>ACA Total</u>	<u>Images Unrestricted</u>	<u>Total</u>
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	215,976	-	-	215,976	21,789	237,765
Total support	<u>536,221</u>	<u>35,000</u>	<u>4,126</u>	<u>575,347</u>	<u>131,496</u>	<u>706,843</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	184,571	-	-	184,571	-	184,571
Gallery and gift shop sales	185,961	-	-	185,961	-	185,961
Other income	29,071	-	-	29,071	32,802	61,873
Total revenues	<u>652,286</u>	<u>-</u>	<u>-</u>	<u>652,286</u>	<u>122,425</u>	<u>774,711</u>
Net assets released from restrictions:						
Satisfaction of program restrictions	25,000	(25,000)	-	-	-	-
Total support and revenues	<u>1,213,507</u>	<u>10,000</u>	<u>4,126</u>	<u>1,227,633</u>	<u>253,921</u>	<u>1,481,554</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	143,761	-	-	143,761	-	143,761
Fund raising and special events	236,696	-	-	236,696	-	236,696
Gallery operations	236,597	-	-	236,597	-	236,597
Total expenses	<u>982,823</u>	<u>-</u>	<u>-</u>	<u>982,823</u>	<u>66,815</u>	<u>1,049,638</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. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (24,807)	(491,090)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Unrealized loss (gain) on investments	(77,762)	158,198
Depreciation	241,768	245,879
Cash provided by (used for) changes in:		
Accounts receivable	(14,890)	10,774
Grants receivable	50,858	351,023
Pledges receivable	(42,292)	(4,128)
Inventories	2,415	(1,706)
Prepaid expenses	1,904	943
Accounts payable and accrued expenses	13,540	(26,693)
Deferred revenue	(1,573)	(34,080)
Net cash provided by operating activities	149,161	209,120
Cash flows from investing activities:		
Payments for land held for sale	(6,298)	-
Investments purchased, sold, or matured, net	(12,565)	(437,156)
Acquisition of property and equipment	(157,016)	(54,138)
Net cash used in investing activities	(175,879)	(491,294)
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes:		
Permanently restricted master artists endowment fund	50,000	50,000
Proceeds from line of credit	30,000	210,000
Repayments on line of credit	(34,392)	(59,699)
Net cash provided by financing activities	45,608	200,301
Net (decrease) increase in cash and cash equivalents	18,890	(81,873)
Cash and cash equivalents, beginning of year	136,790	-
Cash and cash equivalents, end of year	\$ 155,680	(81,873)
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 20,608	14,302
Supplemental disclosure of noncash investing activity:		
Land transferred to land held for sale	\$ 60,374	-

See accompanying notes to financial statements.

ATLANTIC CENTER FOR THE ARTS, INC. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(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. ACA 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 board of trustees also oversees another entity called Images, A Festival of the Arts, Inc. (“Festival” or “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 in New Smyrna Beach, Florida. Financial activity for Images is consolidated for purposes of financial statement presentation with that of ACA 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. & Images, A Festival of the Arts, Inc., which have been consolidated due to the level of control exercised by the board of trustees over both entities. 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:

ATLANTIC CENTER FOR THE ARTS, INC. &
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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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

(b) *Basis of Presentation (Continued)*

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

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. &
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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

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

- (d) *Contributed Services* - During the years ended December 31, 2016 and 2015, 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

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(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.

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(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. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(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, 2016, 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, 2016, the Center's tax years that remain subject to examination are 2013 - 2015.

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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(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 27, 2017, which is the date the financial statements were available to be issued.
- (q) **Reclassifications** - Certain amounts in the 2015 financial statements were reclassified to conform to the 2016 presentation.

(2) Pledges Receivable

Pledges receivable are as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 50,000	60,000
Receivable in one to five years	<u>59,615</u>	<u>57,323</u>
Pledges receivable, net	<u>\$ 109,615</u>	<u>117,323</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. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015, based on the level of input utilized to measure fair value:

December 31, 2016:	<u>Cost</u>	<u>Market Value</u>	<u>Gross Unrealized Gain (Loss)</u>
Unrestricted investments:			
Money market funds	\$ 88,136	88,136	-
Common stocks	34,564	51,438	16,874
Exchange traded and closed-end funds	<u>115,998</u>	<u>209,167</u>	<u>93,169</u>
	<u>\$ 238,698</u>	<u>348,741</u>	<u>110,043</u>

ATLANTIC CENTER FOR THE ARTS, INC. &
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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(3) Investments (Continued)

Investments restricted to temporary endowments:

Money market funds	\$ 6,886	6,886	-
Common stocks	219,173	349,928	130,755
	<u>\$ 226,059</u>	<u>356,814</u>	<u>130,755</u>

Investments restricted to permanent endowments:

Money market funds	\$ 203,583	203,583	-
Common stocks	1,369,792	1,726,685	356,893
Preferred stock	120,150	145,869	25,719
Exchange traded and closed- end funds	679,300	735,404	56,104
Corporate fixed income	22,550	24,990	2,440
	<u>2,395,375</u>	<u>2,836,531</u>	<u>441,156</u>
Total	<u>\$ 2,860,132</u>	<u>3,542,086</u>	<u>681,954</u>

	Cost	Market Value	Gross Unrealized Gain (Loss)
December 31, 2015:	<u> </u>	<u> </u>	<u> </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>

Investments restricted to temporary endowments:

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

ATLANTIC CENTER FOR THE ARTS, INC. &
IMAGES, A FESTIVAL OF THE ARTS, INC.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(3) Investments (Continued)

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	105,271	123,474	18,203
	<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>

The components of total investment return as of December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 102,869	105,966
Realized gain (loss) on investments	43,848	46,645
Net unrealized (loss) gain on investments reported at fair value	74,864	(158,198)
Investment fees	(30,185)	(28,357)
Total	<u>\$ 191,396</u>	<u>(33,944)</u>

ATLANTIC CENTER FOR THE ARTS, INC. &
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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(4) Property and Equipment

Property and equipment consist of the following at December 31:

	2016	2015
Land and land improvements	\$ 980,051	1,040,426
Buildings and building improvements	8,012,558	7,912,820
Furniture, fixtures, and equipment	557,457	461,586
Vehicles	27,712	27,712
	9,577,778	9,480,985
Less: accumulated depreciation	(5,170,037)	(4,928,118)
	4,407,741	4,552,867
Artwork	343,100	343,100
Property and equipment, net	\$ 4,750,841	4,895,967

(5) Restricted Net Assets

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

	2016	2015
For operations at Arts on Douglas	\$ 261,100	261,100
Scholarships for Teen Writing Residency		10,000
Artist residencies (NEA)	-	25,000
Total temporarily restricted net assets	\$ 261,100	296,100

ATLANTIC CENTER FOR THE ARTS, INC. &
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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(5) Restricted Net Assets (Continued)

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

	<u>2016</u>	<u>2015</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	341,513	291,513
Artwork	116,684	116,684
Total permanently restricted net assets	<u>\$ 3,032,694</u>	<u>2,982,694</u>

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, 2016 and 2015, \$677,942 and \$682,334, 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 2016 and 2015, the Center made matching contributions of \$19,680 and \$18,782, respectively.

ATLANTIC CENTER FOR THE ARTS, INC. &
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Notes to Consolidated Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015, classified as permanently restricted:

	2016	2015
Donor restricted endowment funds		
January 1	\$ 2,728,807	2,480,726
Support – contributions	50,000	290,000
Investment income:		
Dividends and interest	85,894	89,005
Realized gains (losses) on sale of investments, net	(257)	41,003
Unrealized gains (losses) on investments	110,805	(23,431)
Use of unrestricted earnings	(138,718)	(148,496)
Donor-restricted endowment funds		
December 31	\$ 2,836,531	2,728,807

(9) Related Party Transactions

During the year ended December 31, 2004, the Board of Trustees of ACA entered into an agreement with Images. ACA's board agreed to carry out the mission of Images by serving as its Board of Trustees. In addition, ACA agreed to manage the operations of the entity via an employee leasing agreement. As the entities share the same board of trustees, they are eligible for consolidation according to generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

ATLANTIC CENTER FOR THE ARTS, INC.

Schedule of Federal, State, and County Financial Assistance

Year ended December 31, 2016

<u>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		2014	1/1/15 - 12/31/15	25,000	5,000
National Endowment for the Arts		2015	1/1/16 - 12/31/16	<u>25,000</u>	<u>25,000</u>
Total Federal Awards				<u><u>\$ 50,000</u></u>	<u><u>30,000</u></u>
State of Florida, Department of State- Division of Cultural Affairs					
Cultural Facilities Grant - ACA 2015-2016 Cultural Facilities Renovation (Reimbursed based on expenditures submitted)		2015	7/1/15 - 6/30/17	\$ 103,358	84,753
General program support - ACA	16.6.114.271	2015	7/1/15 - 6/30/16	71,574	53,681
General program support - Images	16.6.105.272	2015	7/1/15 - 6/30/16	10,409	7,807
General program support - ACA	17.6.114.219	2016	7/1/16 - 6/30/17	91,909	45,954
General program support - Images	17.6.105.229	2016	7/1/16 - 6/30/17	<u>15,215</u>	<u>7,606</u>
Total State Awards				<u><u>\$ 292,465</u></u>	<u><u>199,801</u></u>
ECHO Grant - (Reimbursed based on expenditures submitted, less retainage Expansion and Renovation of Atlantic Center's Cultural Venues Complex		2015	7/1/15 - 6/30/17	\$ 120,502	55,352
Community Cultural Grant Atlantic Center for the Arts, Inc.		2015	7/1/15 - 6/30/16	72,374	54,281
Cultural institutions program Images: A Festival of the Arts, Inc.		2015	7/1/15 - 6/30/16	22,458	16,844
Community Cultural Grant Atlantic Center for the Arts, Inc.		2016	7/1/16 - 6/30/17	69,230	17,308
Cultural Institutions Program Images, A Festival of the Arts, Inc.		2016	7/1/16 - 6/30/17	<u>17,026</u>	<u>4,257</u>
Total County Awards				<u><u>\$ 301,590</u></u>	<u><u>148,042</u></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. & Images, A Festival of 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. & Images, A Festival of the Arts, Inc., which comprise the statement of financial position as of December 31, 2016, 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 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Atlantic Center for the Arts, Inc. & Images, A Festival of 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. & Images, A Festival of the Arts, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Atlantic Center for the Arts, Inc. & A Festival of 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. & Images, A Festival of 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.

Schatz, Tschoff, Whitcomb, Mitchell & Shulman, LLP

Maitland, Florida
April 27, 2017