

**Consolidated Financial Statements and
Supplementary Information**

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

December 31, 2019 and 2018

**ATLANTIC CENTER FOR THE ARTS, INC. &
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**Consolidated Financial Statements and
Supplementary Information**

December 31, 2019 and 2018

(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, 2019 and 2018, and the related consolidated statements of activities, functional expenses 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. and Images, A Festival of the Arts, Inc. as of December 31, 2019 and 2018, and the changes in their net assets and their 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. and 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 9, 2020, on our consideration of Atlantic Center for the Arts, Inc.'s and 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.

Schaefer, Tschoy, Whitcomb, Mitchell & Shulman, LLP

Maitland, Florida
April 9, 2020

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

Consolidated Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 148,017	\$ 163,337
Accounts receivable	31,365	15,528
Grants receivable	126,461	103,214
Pledges receivable (note 2)	102,746	337,396
Inventories	10,729	9,872
Prepaid expenses and other assets	37,060	26,397
Land held for sale	72,435	72,435
Investments (notes 3 and 5)	3,758,075	3,194,855
Property and equipment, net (note 4)	4,240,815	4,358,177
	<u>4,240,815</u>	<u>4,358,177</u>
Total assets	<u>\$ 8,527,703</u>	<u>\$ 8,281,211</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 86,602	\$ 75,620
Deferred revenues	226,733	240,825
	<u>226,733</u>	<u>240,825</u>
Total liabilities	<u>313,335</u>	<u>316,445</u>
Net assets:		
Without donor restriction	4,491,650	4,347,208
With donor restriction (note 5)	3,722,718	3,617,558
	<u>3,722,718</u>	<u>3,617,558</u>
Total net assets	<u>8,214,368</u>	<u>7,964,766</u>
Total liabilities and net assets	<u>\$ 8,527,703</u>	<u>\$ 8,281,211</u>

See accompanying notes to financial statements.

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

Consolidated Statement of Activities

Year ended December 31, 2019

	ACA Without Donor Restrictions	ACA With Donor Restrictions	ACA Total	Images Without Donor Restrictions	Total
Support and revenues:					
Support:					
Grants:					
Governmental	\$ 145,007	\$ 40,000	\$ 185,007	\$ 66,651	\$ 251,658
Foundations	63,300	-	63,300	-	63,300
Contributions and bequests	164,263	162,089	326,352	51,670	378,022
Fund raising and special events	211,014	-	211,014	22,187	233,201
Total support	<u>583,584</u>	<u>202,089</u>	<u>785,673</u>	<u>140,508</u>	<u>926,181</u>
Revenues:					
Contract services	164,052	-	164,052	-	164,052
Program fees	121,208	-	121,208	121,128	242,336
Investment income (loss), net	537,527	-	537,527	-	537,527
Rental income	269,180	-	269,180	-	269,180
Gallery and other	251,689	-	251,689	-	251,689
Total revenues	<u>1,343,656</u>	<u>-</u>	<u>1,343,656</u>	<u>121,128</u>	<u>1,464,784</u>
Net assets released from restrictions:					
Satisfaction of program restrictions	96,929	(96,929)	-	-	-
Total support and revenues	<u>2,024,169</u>	<u>105,160</u>	<u>2,129,329</u>	<u>261,636</u>	<u>2,390,965</u>
Expenses:					
Program services:					
Master artist in residence	474,937	-	474,937	-	474,937
Community arts	261,768	-	261,768	-	261,768
Gallery operations	280,260	-	280,260	-	280,260
Festival expenses	-	-	-	191,034	191,034
Total program services	<u>1,016,965</u>	<u>-</u>	<u>1,016,965</u>	<u>191,034</u>	<u>1,207,999</u>
Supporting services:					
General administration	412,415	-	412,415	70,602	483,017
Facility rental operations	232,298	-	232,298	-	232,298
Fund raising and special events	218,049	-	218,049	-	218,049
Total expenses	<u>1,879,727</u>	<u>-</u>	<u>1,879,727</u>	<u>261,636</u>	<u>2,141,363</u>
Change in net assets	144,442	105,160	249,602	-	249,602
Net assets, beginning of year	<u>4,347,208</u>	<u>3,617,558</u>	<u>7,964,766</u>	<u>-</u>	<u>7,964,766</u>
Net assets, end of year	<u>\$ 4,491,650</u>	<u>\$ 3,722,718</u>	<u>\$ 8,214,368</u>	<u>\$ -</u>	<u>\$ 8,214,368</u>

See accompanying notes to financial statements.

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

Consolidated Statement of Activities

Year ended December 31, 2018

	ACA Without Donor Restrictions	ACA With Donor Restrictions	ACA Total	Images Without Donor Restrictions	Total
Support and revenues:					
Support:					
Grants:					
Governmental	\$ 122,326	\$ 29,820	\$ 152,146	\$ 59,613	\$ 211,759
Foundations	44,300	-	44,300	1,500	45,800
Contributions and bequests	242,002	503,063	745,065	55,275	800,340
Fund raising and special events	240,688	-	240,688	24,777	265,465
Total support	<u>649,316</u>	<u>532,883</u>	<u>1,182,199</u>	<u>141,165</u>	<u>1,323,364</u>
Revenues:					
Contract services	164,052	-	164,052	-	164,052
Program fees	135,690	-	135,690	122,422	258,112
Investment income (loss), net	(125,014)	-	(125,014)	-	(125,014)
Rental income	268,291	-	268,291	-	268,291
Gallery and gift shop sales	217,754	-	217,754	-	217,754
Total revenues	<u>660,773</u>	<u>-</u>	<u>660,773</u>	<u>122,422</u>	<u>783,195</u>
Net assets released from restrictions:					
Satisfaction of program restrictions	221,619	(221,619)	-	-	-
Total support and revenues	<u>1,531,708</u>	<u>311,264</u>	<u>1,842,972</u>	<u>263,587</u>	<u>2,106,559</u>
Expenses:					
Program services:					
Master artist in residence	453,736	-	453,736	-	453,736
Community arts	272,204	-	272,204	-	272,204
Gallery operations	267,402	-	267,402	-	267,402
Festival expenses	-	-	-	189,555	189,555
Total program services	<u>993,342</u>	<u>-</u>	<u>993,342</u>	<u>189,555</u>	<u>1,182,897</u>
Supporting services:					
General administration	434,471	-	434,471	74,032	508,503
Facility rental operations	193,036	-	193,036	-	193,036
Fund raising and special events	206,776	-	206,776	-	206,776
Total expenses	<u>1,827,625</u>	<u>-</u>	<u>1,827,625</u>	<u>263,587</u>	<u>2,091,212</u>
Change in net assets	(295,917)	311,264	15,347	-	15,347
Net assets, beginning of year	<u>4,643,125</u>	<u>3,306,294</u>	<u>7,949,419</u>	<u>-</u>	<u>7,949,419</u>
Net assets, end of year	<u>\$ 4,347,208</u>	<u>\$ 3,617,558</u>	<u>\$ 7,964,766</u>	<u>\$ -</u>	<u>\$ 7,964,766</u>

See accompanying notes to financial statements.

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

Consolidated Statement of Functional Expenses

Year Ended December 31, 2019

	Master Artists-in- Residence	Community Arts	Gallery Operations	Festival Expenses	General and Administrative	Facility Rental Operations	Fund Raising and Special Events	2019
Employee compensation	\$ 123,480	\$ 93,549	\$ 116,665	\$ 70,602	\$ 82,868	\$ 160,863	\$ 122,270	\$ 770,297
Contract labor	4,727	3,643	10,121	36,332	81,223	44,095	3,307	183,448
Honoraria	72,000	49,208	-	-	-	-	-	121,208
Scholarships	13,920	6,855	-	-	-	-	-	20,775
Catering services and supplies	40,440	-	-	38,656	-	-	42,614	121,710
Commissions	-	-	117,889	-	-	-	-	117,889
Awards	-	-	-	30,111	-	-	-	30,111
Exhibitions	-	1,681	3,015	-	-	-	-	4,696
Travel and car rental	14,691	6,243	-	-	3,204	-	2,817	26,955
Artistic supplies	19,748	9,314	600	-	-	-	-	29,662
Utilities	15,765	4,282	6,368	2,023	30,650	11,268	-	70,356
Repairs and maintenance	36,378	8,461	11,790	-	20,270	-	-	76,899
Ancillary facility rental expenses	-	-	-	-	-	16,072	-	16,072
Insurance	27,202	13,601	3,147	108	26,877	-	-	70,935
Advertising and marketing	2,109	7,900	4,574	30,837	-	-	5,695	51,115
Rental and lease	-	1,350	-	18,006	1,240	-	16,797	37,393
Bank and credit card fees	-	-	-	-	21,739	-	-	21,739
Postage and shipping	50	76	2,284	-	2,451	-	774	5,635
Office supplies	-	711	2,614	9,218	9,358	-	2,348	24,249
Professional fees	-	-	-	-	13,500	-	-	13,500
Dues and subscriptions	953	1,000	-	-	615	-	-	2,568
Costs of goods sold	-	-	-	4,869	-	-	10,280	15,149
Miscellaneous	88	2,201	1,193	20,874	15,034	-	11,147	50,537
Depreciation	103,386	51,693	-	-	103,386	-	-	258,465
Total	\$ 474,937	\$ 261,768	\$ 280,260	\$ 261,636	\$ 412,415	\$ 232,298	\$ 218,049	\$2,141,363

See accompanying notes to financial statements.

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

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	Master Artists-in- Residence	Community Arts	Gallery Operations	Festival Expenses	General and Administrative	Facility Rental Operations	Fund Raising and Special Events	2018
Employee compensation	\$ 117,318	\$ 99,432	\$ 122,377	\$ 74,032	\$ 73,617	\$ 129,980	\$ 104,201	\$ 720,957
Contract labor	7,425	22,067	11,055	42,951	80,750	34,987	8,039	207,274
Honoraria	64,000	33,533	-	-	-	-	-	97,533
Scholarships	12,640	8,955	-	-	-	-	-	21,595
Catering services and supplies	41,548	-	-	36,443	-	-	32,303	110,294
Commissions	-	-	102,173	-	-	-	-	102,173
Awards	-	-	-	28,000	-	-	-	28,000
Exhibitions	-	1,850	5,244	-	-	-	-	7,094
Travel and car rental	19,229	1,109	-	-	2,970	-	2,711	26,019
Artistic supplies	13,258	7,966	1,151	-	-	-	-	22,375
Utilities	16,627	4,729	6,217	2,818	31,424	12,270	-	74,085
Repairs and maintenance	21,075	6,837	7,000	-	46,400	-	-	81,312
Ancillary facility rental expenses	-	-	-	-	-	12,244	-	12,244
Insurance	30,242	15,121	3,000	2,024	30,242	-	-	80,629
Advertising and marketing	4,355	7,132	4,967	38,243	-	3,555	12,414	70,666
Rental and lease	-	1,950	-	22,533	2,238	-	21,038	47,759
Bank and credit card fees	-	-	-	-	23,120	-	-	23,120
Postage and shipping	1,104	352	1,801	400	2,318	-	1,017	6,992
Office supplies	-	1,870	1,468	1,854	10,319	-	528	16,039
Professional fees	-	-	-	-	13,875	-	-	13,875
Dues and subscriptions	3,192	1,045	-	-	646	-	-	4,883
Costs of goods sold	-	-	-	2,972	-	-	8,602	11,574
Miscellaneous	190	7,489	949	11,317	15,019	-	15,923	50,887
Depreciation	101,533	50,767	-	-	101,533	-	-	253,833
Total	\$ 453,736	\$ 272,204	\$ 267,402	\$ 263,587	\$ 434,471	\$ 193,036	\$ 206,776	\$ 2,091,212

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 249,602	\$ 15,347
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Unrealized (gain) loss on investments	(379,035)	951,103
Depreciation	258,465	253,833
Cash provided by changes in:		
Accounts receivable	(15,837)	15,809
Grants receivable	(23,247)	750
Pledges receivable	(87,972)	(678,378)
Inventories	(857)	(1,118)
Prepaid expenses	(10,663)	2,500
Accounts payable and accrued expenses	10,982	(2,905)
Deferred revenue	(14,092)	7,547
Net cash provided by (used for) operating activities	<u>(12,654)</u>	<u>564,488</u>
Cash flows from investing activities:		
Payments to ready land held for sale	-	(350)
Investments purchased, sold, or matured, net	(184,185)	(869,241)
Acquisition of property and equipment	(141,103)	(85,588)
Net cash used for investing activities	<u>(325,288)</u>	<u>(955,179)</u>
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes	322,622	390,982
Net cash provided by financing activities	<u>322,622</u>	<u>390,982</u>
Net (decrease) increase in cash and cash equivalents	(15,320)	291
Cash and cash equivalents, beginning of year	<u>163,337</u>	<u>163,046</u>
Cash and cash equivalents, end of year	<u>\$ 148,017</u>	<u>\$ 163,337</u>
Supplemental disclosure of non-cash investing and financing activities:		
Stock donated to a permanently restricted endowment fund	<u>\$ 80,842</u>	<u>\$ -</u>

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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 Florida 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 Florida 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. and 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.

Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- ◆ Net assets without donor restrictions---Net assets that are not subject to donor-imposed stipulations.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

(b) *Basis of Presentation (Continued)*

- ◆ Net assets with donor restrictions---Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed 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, 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.

- (d) *Contributed Services*** - During the years ended December 31, 2019 and 2018, 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.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

- (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, unless the amount of the discount is considered to be immaterial. 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 restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 restricted net assets is classified as unrestricted net assets until 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:

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

(i) *Endowments (Continued)*

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.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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 made for depreciable assets 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.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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, 2019, 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, 2019, the Center's tax years that remain subject to examination are 2016 - 2018.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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 9, 2020, which is the date the financial statements were available to be issued.
- (q) *Reclassifications* - Certain amounts in the 2018 financial statements were reclassified to conform to the 2019 presentation.

(2) Pledges Receivable

Pledges receivable are as follows:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 72,746	\$ 275,521
Receivable in one to five years	<u>30,000</u>	<u>61,875</u>
Pledges receivable, net	<u>\$ 102,746</u>	<u>\$ 337,396</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.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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.

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(3) Investments (Continued)

The following table summarizes the valuation of the Center's financial assets measured at fair value on a recurring basis as of December 31, 2019 and 2018, based on the level of input utilized to measure fair value:

December 31, 2019:	<u>Cost</u>	<u>Market Value</u>	<u>Gross Unrealized Gain (Loss)</u>
Investments in restricted endowments:			
Cash or money market funds	\$ 23,396	\$ 23,396	\$ -
Common stocks	107,548	291,537	183,989
Mutual and exchange-traded funds	<u>3,266,515</u>	<u>3,443,142</u>	<u>176,627</u>
Total	<u>\$ 3,397,459</u>	<u>\$ 3,758,075</u>	<u>\$ 360,616</u>
December 31, 2018:	<u>Cost</u>	<u>Market Value</u>	<u>Gross Unrealized Gain (Loss)</u>
Investments in restricted endowments:			
Cash or money market funds	\$ 164,698	\$ 164,698	\$ -
Common stocks	129,763	319,585	189,822
Mutual funds	-	69,966	69,966
Exchange traded and closed-end funds	<u>2,786,420</u>	<u>2,640,606</u>	<u>(145,814)</u>
Total	<u>\$ 3,080,882</u>	<u>\$ 3,194,855</u>	<u>\$ 113,974</u>

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(3) Investments (Continued)

The components of total investment return as of December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 102,126	\$ 98,844
Realized gain (loss) on investments	78,303	751,899
Net unrealized (loss) gain on investments reported at fair value	379,035	(951,103)
Investment fees	<u>(21,937)</u>	<u>(24,654)</u>
Total	<u>\$ 537,527</u>	<u>\$ (125,014)</u>

(4) Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 980,051	\$ 980,051
Buildings and building improvements	8,140,034	8,061,239
Furniture, fixtures, and equipment	663,985	601,677
Vehicles	<u>47,728</u>	<u>47,880</u>
	9,831,798	9,690,847
Less: accumulated depreciation	<u>(5,934,234)</u>	<u>(5,675,770)</u>
	3,897,715	4,015,077
Artwork	<u>343,100</u>	<u>343,100</u>
Property and equipment, net	<u>\$ 4,240,815</u>	<u>\$ 4,358,177</u>

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(5) Net Assets

Net assets with donor restrictions are restricted for the following purposes at December 31:

	<u>2019</u>	<u>2018</u>
For operations at Arts on Douglas	\$ 330,388	\$ 141,981
Structure repairs and improvements	172,850	309,080
Investments in perpetuity, the income from which is expendable to support:		
Harris House activities	-	29,850
Program activities – state endowed	1,800,00	1,854,647
Master artist - writers	600,000	600,000
Master artist honorariums	391,513	391,513
Scholarships for associate artists	311,283	173,803
Artwork	116,684	116,684
Total net assets with donor restrictions	<u>\$ 3,722,718</u>	<u>\$ 3,617,558</u>

Net assets with donor restrictions 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 margin account agreement with an investment banking firm with interest payable monthly at 4.00%. As of December 31, 2019, no amount was due under the line of credit.

(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 2019 and 2018, the Center made matching contributions of \$23,798 and \$22,654, respectively.

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

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(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, 2019 and 2018, classified as restricted:

	<u>2019</u>	<u>2018</u>
Donor restricted endowment funds		
January 1	\$ 3,194,855	\$ 3,276,717
Support – contributions	308,802	650,342
Portion of contributions still receivable	-	(337,396)
Investment income:		
Dividends and interest	102,126	98,844
Realized gains (losses) on sale of investments, net	78,303	749,964
Unrealized gains (losses) on investments	377,534	(951,103)
Use of unrestricted earnings	<u>(303,545)</u>	<u>(292,513)</u>
Donor-restricted endowment funds December 31	<u>\$ 3,758,075</u>	<u>\$ 3,194,855</u>

(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.

(10) Subsequent Event – Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Center’s operations. Future potential impacts may include disruptions or restrictions on our employees’ ability to work or the customers’ ability to pay. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of students and donors to continue making payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

SUPPLEMENTARY INFORMATION

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

Consolidated Schedule of Federal, State, and County Financial Assistance

Year ended December 31, 2019

<u>Grantor Program Title</u>	<u>CFDA or Grant Number</u>	<u>Year Awarded</u>	<u>Funding Period</u>	<u>Total Grant Award</u>	<u>2019 Receipts</u>
Federal Awards:					
National Endowment for the Arts	45.024	2019	01/01/19 12/31/19	25,000	25,000
Total Federal Awards				<u>\$ 25,000</u>	<u>\$ 25,000</u>
State of Florida, Department of State- Division of Cultural Affairs:					
General program support - ACA	19.c.ps.114.218	2018	7/1/18 - 6/30/19	10,166	5,083
General program support - Images	19.c.ps.105.364	2018	7/1/18 - 6/30/19	3,055	1,528
Division Initiatives Partnership with the National Endowment for the Arts	19.c.ne.900.866	2018	7/1/18 - 6/30/19	29,820	20,874
Division Initiatives Partnership with the National Endowment for the Arts	20.c.ne.900.875	2019	7/1/19 - 6/30/20	40,000	10,000
General program support - ACA	20.c.ps.114.237	2019	7/1/19 - 6/30/20	46,001	23,000
General program support - Images	20.c.ps.105.344	2019	7/1/19 - 6/30/20	12,639	6,320
Total State Awards				<u>\$ 141,681</u>	<u>\$ 66,804</u>
County of Volusia Parks, Recreation, & Culture Division:					
Community Cultural Grant Atlantic Center for the Arts, Inc.		2018	7/1/18 - 6/30/19	66,664	49,998
Community Cultural Grant Images: A Festival of the Arts, Inc.		2018	7/1/18 - 6/30/19	24,313	18,235
Community Cultural Grant Atlantic Center for the Arts, Inc.		2019	7/1/19 - 6/30/20	66,506	16,627
Community Cultural Grant Images: A Festival of the Arts, Inc.		2019	7/1/19 - 6/30/20	23,012	5,753
Total County Awards				<u>\$ 180,495</u>	<u>\$ 90,612</u>

See accompanying notes to financial statements.

**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 consolidated financial statements of Atlantic Center for the Arts, Inc. and Images, A Festival of the Arts, Inc., which comprise the consolidated statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 9, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Atlantic Center for the Arts, Inc.'s and 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.'s and 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.'s or Images, 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.'s and Images, A Festival of the Arts, Inc.'s consolidated 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, Tschoff, Whitcomb, Mitchell & Shuilen, LLP

Maitland, Florida
April 9, 2020