



THE DUNEDIN FINE ART CENTER, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014



CLEARWATER, FLORIDA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Dunedin Fine Art Center, Inc.
Dunedin, Florida

We have audited the accompanying financial statements of The Dunedin Fine Art Center, Inc. (DFAC), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, the related statement of functional expenses for the year ended September 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CONTINUED

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DFAC as of September 30, 2015 and 2014, and the changes in its net assets, and its cash flows for the years then ended, and its functional expenses for the year ended September 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited DFAC's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 12, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clearwater, Florida
January 14, 2016

THE DUNEDIN FINE ART CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
<i>Assets</i>		
Cash and cash equivalents	\$ 468,076	\$ 73,211
Restricted cash	223,593	168,695
Investments	1,209,666	1,328,101
Grants and other receivables	2,727	33,749
Promises to give, net	667,306	227,179
Inventory	7,156	7,059
Prepaid expenses	2,702	1,351
Property and equipment, net	117,068	142,138
Unamortized leasehold interest	5,314,243	5,580,560
	\$ 8,012,537	\$ 7,562,043

LIABILITIES AND NET ASSETS

<i>Liabilities</i>		
Accounts payable	\$ 50,488	\$ 46,633
Deferred income	65,956	41,258
Accrued expenses	52,885	11,202
Note payable	315,000	800,000
	484,329	899,093
<i>Net Assets</i>		
Unrestricted net assets:		
Unrestricted net assets, including \$384,315 and \$502,750 of board designated funds, respectively	165,552	(418,270)
Property and equipment	117,068	142,138
	282,620	(276,132)
<i>Total unrestricted net assets</i>	282,620	(276,132)
Temporarily restricted net assets	6,420,237	6,113,731
Permanently restricted net assets	825,351	825,351
	7,528,208	6,662,950
<i>Total net assets</i>	\$ 8,012,537	\$ 7,562,043

See accompanying notes to financial statements

THE DUNEDIN FINE ART CENTER, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
Public Support and Revenue					
Membership	\$ 69,505	\$ -	\$ -	\$ 69,505	\$ 64,206
Education	644,399	-	-	644,399	583,280
Sales, Gallery Shop, net of costs	26,960	-	-	26,960	11,405
Exhibition sponsorships, net of costs	26,788	-	-	26,788	27,483
Special events, net of costs	156,241	-	-	156,241	157,199
Grant income	117,391	500,000	-	617,391	37,581
Contributions	91,345	850,721	-	942,066	1,157,684
Program support sponsorships	7,759	-	-	7,759	14,008
Investment income, net	-	21,359	-	21,359	15,434
Net realized and unrealized gain (loss) on investments	-	(80,821)	-	(80,821)	51,058
In-kind donations	427,686	-	-	427,686	432,713
Other	433,538	-	-	433,538	65,024
Net assets released from restrictions	984,753	(984,753)	-	-	-
Total public support and revenue	2,986,365	306,506	-	3,292,871	2,617,075
Expenses					
Program service:					
Art education and cultural awareness	1,774,986	-	-	1,774,986	1,253,889
Support services:					
Management and general	300,567	-	-	300,567	205,463
Fundraising	352,060	-	-	352,060	235,647
Total support services	652,627	-	-	652,627	441,110
Total expenses	2,427,613	-	-	2,427,613	1,694,999
Change in Net Assets	558,752	306,506	-	865,258	922,076
Net Assets, Beginning of Year	(276,132)	6,113,731	825,351	6,662,950	5,740,874
Net Assets, End of Year	\$ 282,620	\$ 6,420,237	\$ 825,351	\$ 7,528,208	\$ 6,662,950

See accompanying notes to financial statements

THE DUNEDIN FINE ART CENTER, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue				
Membership	\$ 64,206	\$ -	\$ -	\$ 64,206
Education	583,280	-	-	583,280
Sales, Gallery Shop, net of costs	11,405	-	-	11,405
Exhibition sponsorships, net of costs	27,483	-	-	27,483
Special events, net of costs	157,199	-	-	157,199
Grant income	37,581	-	-	37,581
Contributions	212,840	944,844	-	1,157,684
Program support sponsorships	14,008	-	-	14,008
Investment income, net	-	15,434	-	15,434
Net realized and unrealized gain on investments	-	51,058	-	51,058
In-kind donations	432,713	-	-	432,713
Other	65,024	-	-	65,024
Net assets released from restrictions	1,271,816	(1,271,816)	-	-
Total public support and revenue	2,877,555	(260,480)	-	2,617,075
Expenses				
Program service:				
Art education and cultural awareness	1,253,889	-	-	1,253,889
Support services:				
Management and general	205,463	-	-	205,463
Fundraising	235,647	-	-	235,647
Total support services	441,110	-	-	441,110
Total expenses	1,694,999	-	-	1,694,999
Change in Net Assets Before Other Changes	1,182,556	(260,480)	-	922,076
Other Changes				
Donation - City of Dunedin	(5,580,560)	5,580,560	-	-
Change in Net Assets	(4,398,004)	5,320,080	-	922,076
Net Assets, Beginning of Year	4,121,872	793,651	825,351	5,740,874
Net Assets, End of Year	\$ (276,132)	\$ 6,113,731	\$ 825,351	\$ 6,662,950

See accompanying notes to financial statements

THE DUNEDIN FINE ART CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	<i>Supporting Services</i>			<i>Total Support Services</i>	<i>Total Expenses</i>	
	<i>Program Services</i>	<i>Management and General</i>	<i>Fund Raising</i>		<i>2015</i>	<i>2014</i>
Salaries and related costs:						
Salaries	\$ 396,091	\$ 88,677	\$ 106,413	\$ 195,090	\$ 591,181	\$ 461,396
Employee benefits	46,341	10,375	12,450	22,825	69,166	55,679
Payroll taxes	29,701	6,650	7,979	14,629	44,330	36,309
Total salaries and related costs	472,133	105,702	126,842	232,544	704,677	553,384
Other expenses:						
Education	325,542	-	-	-	325,542	270,766
Public relations	68,042	15,233	18,280	33,513	101,555	86,952
Professional fees	60,518	13,549	16,259	29,808	90,326	31,811
Administrative	57,193	10,093	-	10,093	67,286	71,479
Utilities and custodial services	34,248	7,668	9,201	16,869	51,117	40,217
Exhibitions costs	46,603	-	-	-	46,603	32,159
Contract services	23,463	5,253	6,303	11,556	35,019	31,118
Other expenses	28,656	-	-	-	28,656	4,617
Interest	19,562	-	-	-	19,562	15,753
Computer	12,109	2,711	3,253	5,964	18,073	13,167
Grants expense	11,503	2,576	3,091	5,667	17,170	4,325
Credit card fees	11,456	2,565	3,078	5,643	17,099	18,852
Insurance	11,087	2,482	2,978	5,460	16,547	20,235
Equipment rental and maintenance	10,498	2,350	2,820	5,170	15,668	15,456
Staff training	9,285	2,079	2,494	4,573	13,858	14,842
Repair and maintenance	8,395	1,880	2,255	4,135	12,530	5,910
Office expense	7,502	1,680	2,015	3,695	11,197	6,233
Dues and subscriptions	2,995	671	805	1,476	4,471	2,777
Membership	-	-	3,497	3,497	3,497	1,959
Postage	1,547	347	416	763	2,310	1,114
Total other expense	750,204	71,137	76,745	147,882	898,086	689,742
Expenses before depreciation and in-kind expenses	1,222,337	176,839	203,587	380,426	1,602,763	1,243,126
In-kind expenses	286,550	64,153	76,983	141,136	427,686	432,713
Depreciation and amortization	266,099	59,575	71,490	131,065	397,164	19,160
Total functional expenses	\$ 1,774,986	\$ 300,567	\$ 352,060	\$ 652,627	\$ 2,427,613	\$ 1,694,999

See accompanying notes to financial statements

THE DUNEDIN FINE ART CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<i>Cash Flows from Operating Activities</i>		
Change in net assets	\$ 865,258	\$ 922,076
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization	397,164	19,160
Realized gain on investments	(8,118)	(31,953)
Unrealized loss (gain) on investments	88,939	(19,105)
Increase (decrease) in operating assets		
Grants/other receivables and promises to give, net	(409,105)	794,432
Inventory	(97)	5,366
Prepaid expenses	(1,351)	874
Decrease (increase) in operating liabilities		
Accounts payable	3,855	(169,628)
Deferred income	24,698	(17,650)
Accrued expenses	41,683	(20,171)
	<u>1,002,926</u>	<u>1,483,401</u>
<i>Net cash provided by operating activities</i>		
<i>Cash Flows from Investing Activities</i>		
Cash paid for leasehold interest/property and equipment	(105,777)	(2,393,845)
Purchases of investments	(571,529)	(902,305)
Proceeds from sale of investments	609,143	1,093,956
	<u>(68,163)</u>	<u>(2,202,194)</u>
<i>Net cash used in investing activities</i>		
<i>Cash Flows from Financing Activities</i>		
(Payments on) proceeds from note payable	(485,000)	800,000
	<u>(485,000)</u>	<u>800,000</u>
<i>Net Increase in Cash and Cash Equivalents</i>		
	449,763	81,207
<i>Cash and Cash Equivalents, Beginning of Year (including restricted cash of \$168,695 at September 30, 2014)</i>		
	<u>241,906</u>	<u>160,699</u>
<i>Cash and Cash Equivalents, End of Year (including restricted cash of \$223,593 at September 30, 2015)</i>		
	<u>\$ 691,669</u>	<u>\$ 241,906</u>
<i>Supplemental Disclosure of Cash Flow Information</i>		
Cash paid for interest	<u>\$ 19,562</u>	<u>\$ 15,753</u>
<i>Noncash Transactions:</i>		
Donation to City of Dunedin/transfer of leasehold interest	<u>\$ -</u>	<u>\$ 5,580,560</u>

See accompanying notes to financial statements

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE A - NATURE OF OPERATIONS

The Dunedin Fine Art Center, Inc. (DFAC) was organized in 1974 as a not-for-profit corporation under the laws of Florida. DFAC's mission is to offer creative educational experiences in the visual arts. This is done by offering adult and youth art classes at three different campuses. DFAC sponsors exhibitions and shows that are open to the public and provide a lively summer youth camp. Additionally, DFAC provides community outreach for schools and community groups by providing hands-on art projects at schools and events.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Basis of Presentation**

The financial statements of DFAC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP).

DFAC presents information regarding its financial position and activities according to three classes of net assets described as follows:

- Unrestricted Net Assets - All resources over which the governing board has discretionary control. The governing board of DFAC may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.
- Temporarily Restricted Net Assets - Resources accumulated through donations or grants for specific operating or capital purpose. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.
- Permanently Restricted Net Assets - Resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. These net assets include the original value of the gift, plus any subsequent additions.

2. **Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements include allocation of expenses by function, useful lives of depreciable and amortizable assets, and net present value of promises to give.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. **Fair Value Measurement**

The financial statements are prepared in accordance with an accounting standard, for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements or on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

4. **Cash and Cash Equivalents**

DFAC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents for purposes of reporting cash flows.

Financial instruments which potentially subject DFAC to concentrations of credit risk consist principally of cash and cash equivalents held in financial institutions in excess of federally-insured limits. From time to time throughout the years ending September 30, 2015 and 2014, DFAC's cash balance may have exceeded the federally insured limit. However, DFAC has not experienced and does not expect to incur any losses in such accounts.

5. **Restricted Cash**

Restricted cash consists of amounts received in connection with DFAC's capital projects. Additionally, restricted cash is considered temporarily restricted and meets the requirements of cash equivalents.

6. **Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment gains and losses (including realized and unrealized gains and losses on investments, interest and dividends) are included in the accompanying statements of activities.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. **Promises to Give**

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Promises to give which are due in more than one year are recorded at estimated fair value by discounting future cash flows using current risk-free rates of return based on U.S. Treasury Securities yields with maturity dates similar to the expected contribution collection period. Management reviews outstanding promises to give on an ongoing basis. As of September 30, 2015 and 2014, no allowance was deemed necessary by management.

8. **Inventory**

Inventory is stated at the lower of cost or market, on the first-in, first-out (FIFO) basis and consists of merchandise held for sale in the Gallery Shop as well as certain supplies held for consumption during operations.

9. **Property and Equipment**

Property and equipment are recorded at cost when purchased or, if donated, at estimated fair value at the date of donation. Improvements and betterments in excess of \$500 that materially prolong the useful lives of assets are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives or the life of the lease, whichever is shorter. Depreciation ranges from five to thirty-three years.

10. **Unamortized Leasehold Interest**

The leasehold interest conveyed to the City of Dunedin (the City) is being amortized on a straight-line basis over the period of benefit of the leasehold rights.

11. **Impairment Of Long-Lived Assets**

DFAC reviews long-lived assets, including the unamortized leasehold interest, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

DFAC assesses the recoverability of the cost of the asset based on a review of projected undiscounted cash flows. In the event an impairment loss is identified, it is recognized based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. **Revenue Recognition**

All contributions, grants, and bequests are considered to be available for unrestricted use, unless specifically restricted by the donor. Contributions, including pledges, are recognized as revenue when received, grants when designated, and bequests when the amount can be reasonably estimated and the right to receive the bequest is determinable.

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the 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 restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, DFAC reports the support as unrestricted.

13. **Noncash Contributions**

Donated materials are recorded as support at their fair value at the date of donation. Contributions of services are recorded as support at their estimated fair value if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

No amounts have been reflected in the financial statements for donated volunteer services in connection with the various programs since they do not meet the requirements under the financial accounting standards.

14. **Deferred Income**

Deferred income consists of membership fees and tuition that are collected in advance and are recognized as revenue in the applicable period.

15. **Income Tax Status**

DFAC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. **Uncertain Tax Positions**

DFAC accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions.

DFAC has identified its tax status as a tax-exempt entity as its only significant tax position; however, DFAC has determined that such tax position does not result in an uncertainty requiring recognition. DFAC is not currently under examination by any taxing jurisdiction. DFAC’s federal returns are generally open for examination for three years following the date filed.

17. **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on a percentage of hours served by personnel.

18. **Comparative Financial Information**

The accompanying financial statements include certain prior year summarized comparative total amounts. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with DFAC’s financial statements for the year ended September 30, 2014.

NOTE C - BUILDING MAINTENANCE

DFAC’s building and land improvements are located on property owned by the City. The cost of the original building and land improvements (from inception in 1974 through 1989) were previously transferred to the City and are not reflected in the accompanying statements of financial position. All leasehold improvements made since 1990 were conveyed to the City effective September 30, 2014 and are reflected as an unamortized leasehold interest on the statement of financial position as of September 30, 2015 and 2014 (see **NOTE G**). DFAC occupies the building under an agreement with the City, whereby DFAC operates the inside of the building and the City provides facility repair and outside and ground maintenance.

The City’s in-kind donation includes building maintenance expenses, such as ground maintenance, and facility repair. The in-kind donation for September 30, 2015 and 2014 was \$90,278 and \$52,224, respectively.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE D - PROMISES TO GIVE

Unconditional promises to give consist of the following at September 30:

	<u>2015</u>	<u>2014</u>
Unrestricted promises to give	\$ 670,556	\$ 228,618
Less unamortized discount	<u>(3,250)</u>	<u>(1,439)</u>
Net unrestricted promises to give	<u>\$ 667,306</u>	<u>\$ 227,179</u>
Amounts due in:		
Less than one year	\$ 577,056	\$ 189,278
One to five years	<u>90,250</u>	<u>37,901</u>
	<u>\$ 667,306</u>	<u>\$ 227,179</u>

NOTE E - INVESTMENTS

Investments are presented in the financial statements at their fair market values and consist of the following at September 30:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 82,363	\$ 82,363	\$ 87,941	\$ 87,941
Fixed-income securities	530,812	509,444	603,309	601,542
Equity mutual funds	380,204	399,049	318,841	397,906
Complementary strategies funds	112,488	106,970	128,028	127,638
Real asset funds	<u>115,586</u>	<u>111,840</u>	<u>112,829</u>	<u>113,074</u>
	<u>\$1,221,453</u>	<u>\$1,209,666</u>	<u>\$1,250,948</u>	<u>\$1,328,101</u>

The following schedule summarizes the investment return for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 31,507	\$ 25,996
Investment expense	<u>(10,148)</u>	<u>(10,562)</u>
	21,359	15,434
Unrealized (loss) gain on investments	(88,939)	19,105
Realized gain on investments	<u>8,118</u>	<u>31,953</u>
	<u>(80,821)</u>	<u>51,058</u>
Net investment return	<u>\$ (59,462)</u>	<u>\$ 66,492</u>

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 95,443	\$ 74,783
Library	3,914	3,914
Equipment	235,763	189,046
Construction in progress	<u>38,400</u>	<u>-</u>
Total property and equipment	373,520	267,743
Less accumulated depreciation	<u>(256,452)</u>	<u>(125,605)</u>
	<u>\$ 117,068</u>	<u>\$ 142,138</u>

During the year ended September 30, 2013, DFAC entered into a construction contract for approximately \$2,700,000 to build a new west wing. During 2013, DFAC incurred construction costs of \$635,646 and received \$500,000 from the State of Florida and \$500,000 from the City to assist in funding this construction. The west wing was completed in fiscal 2014. A contract was awarded in June 2015 to complete the build-out of the second floor. The cost is estimated at \$800,000 and will be completed by April 2016.

The Creative Visions Capital Campaign was launched to help fund construction and pay the note payable acquired to complete the second floor of this wing. In October 2014, the State awarded DFAC with a Cultural Facilities Program Grant of \$500,000 for completion of the second floor. The west wing and all other related building improvements were conveyed to the City (see *NOTE G*).

Total depreciation expense was \$130,847 and \$18,257 for the years ended September 30, 2015 and 2014, respectively.

NOTE G - UNAMORTIZED LEASEHOLD INTEREST

Effective September 30, 2014, DFAC conveyed all leasehold improvements made since 1990 to the City. The costs of additions and improvements to the leasehold interest are recorded at cost as increases in the value of the leasehold interest. This leasehold interest is being amortized using the straight-line method over the life of the leasehold (20 years). The details of the transaction follow:

<i>Leasehold Interest</i>	<u>2015</u>	<u>2014</u>
Conveyed to the City of Dunedin	\$ 6,620,800	\$ 6,620,800
Accumulated amortization	<u>(1,306,557)</u>	<u>(1,040,240)</u>
Unamortized leasehold interest	<u>\$ 5,314,243</u>	<u>\$ 5,580,560</u>

Amortization expense and amount released from restriction related to this leasehold interest for the years ended September 30, 2015 and 2014, was approximately \$266,317 and \$900, respectively.

THE DUNEDIN FINE ART CENTER, INC.
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SEPTEMBER 30, 2015 AND 2014

NOTE H - CONTRIBUTED SERVICES AND IN-KIND DONATIONS

During the years ended September 30, 2015 and 2014, contributions of materials and supplies and professional services were recorded as contributions revenue as follows:

	<u>2015</u>	<u>2014</u>
Maintenance services	\$ 90,278	\$ 52,224
Exhibits	5,565	8,500
Professional services	2,850	7,500
Events	117,410	97,251
Public relations and marketing	<u>211,583</u>	<u>267,238</u>
	<u>\$ 427,686</u>	<u>\$ 432,713</u>

NOTE I - TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2015</u>	<u>2014</u>
Restricted for capital projects	\$ 1,011,961	\$ 496,700
Unamortized leasehold interest	5,314,243	5,580,560
Scholarships	8,221	6,661
COCA adults	7	4,309
Youth teen education	-	543
Sizzlin' summer	16,162	9,895
Turner scholarship	-	9,625
Memorials - adult COC	11,463	5,438
Clay fund	11,558	-
Just Imagine	9,532	-
Pinellas Community Foundation	10,000	-
Pougialis Grant	<u>27,090</u>	<u>-</u>
	<u>\$ 6,420,237</u>	<u>\$ 6,113,731</u>

DFAC was named as a beneficiary in a trust that became available for distribution in April 2011. The co-trustees of the trust filed a motion seeking a declaratory judgment concerning whether (1) DFAC is the sole beneficiary of the trust provided that it meets the terms stated within the trust document; and (2) whether distributions under the trust are mandatory or discretionary. The case was settled in August 2014. In January 2015, the Organization received \$225,000 from the trust and an awarding committee was formed to oversee and approve expenditures. As of September 30, 2015, the Organization expended \$197,910 in approved expenditures and the remaining amount is included in temporarily restricted net assets.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE J - PERMANENTLY RESTRICTED NET ASSETS

The permanently restricted net assets consist of endowment donations to DFAC. The donors have instructed DFAC that the principal cannot be expended; however, the earnings generated by the original donated principal are available to be expended. Any earnings are included in temporarily restricted or unrestricted net assets as earnings are expended. Permanently restricted net assets were \$825,351 as of September 30, 2015 and 2014.

NOTE K - LEASES

DFAC leases certain equipment under various operating leases. The terms of these leases range from 36 months to 60 months. Total lease expense was approximately \$12,000 and \$13,000 for the years ended September 30, 2015 and 2014, respectively.

Based on the terms of the agreements, the minimum payments due on all leases are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2016	\$ 8,896
2017	8,896
2018	<u>3,578</u>
	<u>\$ 21,370</u>

NOTE L - FAIR VALUE MEASUREMENTS

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2015 and 2014.

Money markets funds - the carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.

Fixed-income securities, equity mutual funds, complementary strategies funds, and real asset funds - valued at quoted market prices in which individual securities are traded.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE L - FAIR VALUE MEASUREMENTS - CONTINUED

The following tables represent DFAC's financial instruments measured at fair value on a recurring basis at September 30, 2015 and 2014 for each of the fair value hierarchy levels:

Fair value of assets measured on a recurring basis at September 30, 2015 is as follows:

Fair Value Measurements at Reporting Date Using

<u>Description:</u>	<u>Quoted Prices</u>			<u>Total</u>
	<u>In Active</u> <u>Markets for</u> <u>Identical</u> <u>Assets</u> <u>Level 1</u>	<u>Significant</u> <u>Other</u> <u>Observable</u> <u>Inputs</u> <u>Level 2</u>	<u>Significant</u> <u>Other</u> <u>Unobservable</u> <u>Inputs</u> <u>Level 3</u>	
Assets:				
Money market funds	\$ 82,363	\$ -	\$ -	\$ 82,363
Fixed-income securities	509,444	-	-	509,444
Equity mutual funds	399,049	-	-	399,049
Complementary strategies funds	106,970	-	-	106,970
Real asset funds	<u>111,840</u>	<u>-</u>	<u>-</u>	<u>111,840</u>
Total assets at fair value	<u>\$ 1,209,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,209,666</u>

Fair value of assets measured on a recurring basis at September 30, 2014 is as follows:

Fair Value Measurements at Reporting Date Using

<u>Description:</u>	<u>Quoted Prices</u>			<u>Total</u>
	<u>In Active</u> <u>Markets for</u> <u>Identical</u> <u>Assets</u> <u>Level 1</u>	<u>Significant</u> <u>Other</u> <u>Observable</u> <u>Inputs</u> <u>Level 2</u>	<u>Significant</u> <u>Other</u> <u>Unobservable</u> <u>Inputs</u> <u>Level 3</u>	
Assets:				
Money market funds	\$ 87,941	\$ -	\$ -	\$ 87,941
Fixed-income securities	601,542	-	-	601,542
Equity mutual funds	397,906	-	-	397,906
Complementary strategies funds	127,638	-	-	127,638
Real asset funds	<u>113,074</u>	<u>-</u>	<u>-</u>	<u>113,074</u>
Total assets at fair value	<u>\$ 1,328,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,328,101</u>

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE M - ENDOWMENT FUND

DFAC's endowment (the Fund) consists of individual funds established for a variety of purposes. Its endowment is comprised of donor-restricted endowment funds. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2010, DFAC received a restricted endowment contribution of \$240,000 from the State of Florida. The related funding agreement required that DFAC designate an additional \$360,000 to supplement the State endowment contribution. The \$240,000 contribution reverts back to the State of Florida if DFAC ceases operations, files for bankruptcy protection, or willfully expends any portion of the \$600,000. Earnings from the Fund are available to fund DFAC's operating activities.

Additionally in 2010, DFAC received an amount of \$225,351 to be held in perpetuity included in the Fund. The interest and income can be used annually to provide for children's programs, exhibits, or other programming activities for children and adults. The initial corpus of this donation is considered to be permanently restricted while the interest and income is considered temporarily restricted if not used within the same year in which it is earned.

The Board has designated certain funds to the endowment fund. The board designated funds have recognized the depreciation and appreciation in recent years.

Interpretation of Relevant Law

In July 2011, the State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA). DFAC has interpreted the 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, DFAC 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 temporarily restricted net assets until those amounts are appropriated for expenditure by DFAC in a manner consistent with the standard of prudence prescribed by FUPMIFA.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE M - ENDOWMENT FUND - CONTINUED

In accordance with the FUPMIFA, DFAC 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 DFAC 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 DFAC
- (7) The investment policies of DFAC

For the years ended September 30, 2015 and 2014, DFAC has elected not to add appreciation for cost of living or other spending policies, due to inflation and other economic conditions, to its permanently restricted endowment. Any appreciation retained is included in the unrestricted board designated endowment.

Summary of Endowment Assets:

Endowment assets as of September 30 are invested as follows:

	<u>2015</u>	<u>2014</u>
Investments	\$ 1,209,666	\$ 1,328,101

Summary of Endowment Assets September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment	\$ 384,315	\$ -	\$ -	\$ 384,315
Donor-restricted endowment	<u>-</u>	<u>-</u>	<u>825,351</u>	<u>825,351</u>
	<u>\$ 384,315</u>	<u>\$ -</u>	<u>\$ 825,351</u>	<u>\$ 1,209,666</u>

Summary of Endowment Assets September 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment	\$ 502,750	\$ -	\$ -	\$ 502,750
Donor-restricted endowment	<u>-</u>	<u>-</u>	<u>825,351</u>	<u>825,351</u>
	<u>\$ 502,750</u>	<u>\$ -</u>	<u>\$ 825,351</u>	<u>\$ 1,328,101</u>

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE M - ENDOWMENT FUND - CONTINUED

Changes in endowment net assets as of September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 502,750	\$ -	\$ 825,351	\$ 1,328,101
Interest and dividends	-	21,359	-	21,359
Net investment depreciation	-	(80,821)	-	(80,821)
Released from restriction	<u>(118,435)</u>	<u>59,462</u>	<u>-</u>	<u>(58,973)</u>
Endowment net assets, ending	<u>\$ 384,315</u>	<u>\$ -</u>	<u>\$ 825,351</u>	<u>\$ 1,209,666</u>

Changes in endowment net assets as of September 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 518,343	\$ -	\$ 825,351	\$ 1,343,694
Interest and dividends	-	15,434	-	15,434
Net investment appreciation	-	51,058	-	51,058
Released from restriction	<u>(15,593)</u>	<u>(66,492)</u>	<u>-</u>	<u>(82,085)</u>
Endowment net assets, ending	<u>\$ 502,750</u>	<u>\$ -</u>	<u>\$ 825,351</u>	<u>\$ 1,328,101</u>

Return Objectives, Risk Parameters, and Strategies

DFAC has adopted an investment and spending policy for endowment assets that attempts to preserve the real (inflation adjusted) value of endowment assets, increase the real value of the portfolio and facilitate a potential distribution to support some level of future operations. Endowment assets include those assets of donor-restricted funds that DFAC must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The terms of the operating policies of the endowment fund requires that it will be managed by an outside investment counselor recommended by the Endowment Committee and approved by the Board of Directors. The Investment Committee is responsible for the investment selections, subject to guidance from the Endowment Committee. The objective of the Fund is to invest funds in accordance with the standards set forth in Section 518.11, Florida Statutes. The amount invested in equities shall vary from time to time and shall be established by the committees as conditions permit.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE M - ENDOWMENT FUND - CONTINUED

Spending Policy

DFAC is operating under an approved endowment spending policy that seeks to preserve the purchasing power of the Fund while providing income at the highest attainable level. The earnings and accumulations in the Fund are budgeted annually and are to be used based on expected total return and taking restrictions into account. There is to be no invasion of the original principal of the gift given to DFAC unless the donor instructs otherwise.

The Fund can distribute, annually, up to 5% of the average market value of the preceding twelve calendar quarters. Within forty-five days of the end of the fiscal year, the Chairman of the Endowment Committee, upon review and approval by the Endowment Committee, shall recommend to the Board of Directors the amount from the prior fiscal year, if any, to be distributed from the Endowment Fund and the Board of Directors shall determine the purpose for which the amount shall be used. In the event the funds are not distributed in any given year, funds up to calculated amount may be distributed in a subsequent year.

NOTE N - LINES-OF-CREDIT

DFAC entered into a \$100,000 revolving line-of-credit in July 2011 with a financial institution. The line-of-credit is unsecured and bears interest at a rate equal to the prime rate. The line-of-credit is automatically renewable annually and payable on demand.

DFAC entered into a revolving line-of-credit in July 2014 with another financial institution for \$100,000. The line-of-credit is unsecured and bears interest at a rate equal to the prime rate plus 0.50%. The line-of-credit automatically renews annually and payable on demand.

The line-of-credit is cross-collateralized with the note payable (see **NOTE O**). There was no balance outstanding on either line-of-credit at September 30, 2015 and 2014.

NOTE O - NOTE PAYABLE

DFAC entered into a \$1,500,000 note payable with a financial institution on February 24, 2014 for the construction of a two-story addition and space renovations to an existing building. The note payable is collateralized by property and equipment, assignment of pledges and a portion of endowment funds. The note bears interest at a rate of 3.95% fixed for five years adjusting at the end of the 5th year at 325 basis points above the then corresponding five years US Treasury Note Rate, fixed for an additional five years. There will be a floor of 3.95%. There is an interest only phase for the first twenty-four months and the note matures eight years from the interest only phase. The note matures on February 24, 2024, however, the Organization has made prepayments of principal and will pay the remaining balance over the next two years. As of September 30, 2015, the outstanding balance was \$315,000.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE O - NOTE PAYABLE - CONTINUED

Based on the terms of the agreement, the minimum payments due on the note are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2016	\$ 137,940
2017	<u>177,060</u>
	<u>\$ 315,000</u>

NOTE P - PENSION PLAN

Full-time employees of DFAC may elect to participate in a self-directed Simple IRA plan. The employees' tax-deferred contribution will be matched by DFAC up to a maximum of 3% of their salary. This plan is administered by a broker-dealer and provides the participants with the option to invest in several different registered investment funds.

The matching contributions provided by DFAC for the fiscal years ended September 30, 2015 and 2014 was \$14,030 and \$12,453, respectively. This amount is a component of employee benefits on the statement of functional expenses.

NOTE Q - COMMITMENTS AND CONTINGENCIES

DFAC receives support from grantor agencies for its programs. If this support were to be reduced or eliminated, it could affect the operation of the supported programs. In addition, DFAC is subject to audit examination by the grantor agencies. In the event that reimbursed expenditures were disallowed, repayment would be required.

NOTE R - SUBSEQUENT EVENTS

DFAC evaluated its subsequent events through January 14, 2016, the date the financial statements were available and issued. DFAC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.