

The Dunedin Fine Art Center, Inc.

Financial Statements

September 30, 2016 and 2015



THE DUNEDIN FINE ART CENTER, INC.
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September 30, 2016 and 2015:

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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, 2016 and 2015, 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, 2016, 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 The Dunedin Fine Art Center, Inc. as of September 30, 2016 and 2015, 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, 2016, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited DFAC's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PDR Certified Public Accountants

Clearwater, Florida
January 12, 2017

**THE DUNEDIN FINE ART CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015**

ASSETS

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 98,778	\$ 468,076
Restricted cash	309,483	223,593
Investments	1,232,472	1,209,666
Grants and other receivables	2,430	2,727
Promises to give, net	219,083	667,306
Inventory	10,355	7,156
Prepaid expenses	879	2,702
Property and equipment, net	112,472	117,068
Unamortized leasehold interest	6,001,096	5,314,243
	<u>\$ 7,987,048</u>	<u>\$ 8,012,537</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 60,339	\$ 50,488
Deferred income	98,746	65,956
Accrued expenses	30,058	52,885
Note payable	215,017	315,000
	<u>404,160</u>	<u>484,329</u>
Net Assets		
Unrestricted net assets:		
Unrestricted net assets, including \$407,121 and \$384,315 of board designated funds, respectively	134,115	165,552
Property and equipment	112,472	117,068
Total unrestricted net assets	246,587	282,620
Temporarily restricted net assets	6,510,950	6,420,237
Permanently restricted net assets	825,351	825,351
Total net assets	<u>7,582,888</u>	<u>7,528,208</u>
	<u>\$ 7,987,048</u>	<u>\$ 8,012,537</u>

See accompanying notes to financial statements

**THE DUNEDIN FINE ART CENTER, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Public Support and Revenue					
Membership	\$ 78,409	\$ -	\$ -	\$ 78,409	\$ 69,505
Education	698,489	-	-	698,489	644,399
Gallery Shop sales (net of costs of goods sold of \$36,425)	27,641	-	-	27,641	26,960
Exhibition sponsorships (net of direct costs of \$12,932)	30,570	-	-	30,570	26,788
Special events (net of direct costs of \$89,832)	175,947	-	-	175,947	156,241
Grant income	77,797	-	-	77,797	617,391
Contributions	30,250	720,647	-	750,897	942,066
Program support sponsorships	17,162	-	-	17,162	7,759
Investment income, net	-	19,870	-	19,870	21,359
Net realized and unrealized gain (loss) on investments	-	67,773	-	67,773	(80,821)
In-kind donations	767,816	-	-	767,816	427,686
Other	55,556	-	-	55,556	433,538
Net assets released from restrictions	1,686,899	(1,686,899)	-	-	-
Total public support and revenue	3,646,536	(878,609)	-	2,767,927	3,292,871
Expenses					
Program service:					
Art education and cultural awareness	1,971,336	-	-	1,971,336	1,774,986
Support services:					
Management and general	344,425	-	-	344,425	300,567
Fundraising	397,486	-	-	397,486	352,060
Total support services	741,911	-	-	741,911	652,627
Total expenses	2,713,247	-	-	2,713,247	2,427,613
Change in Net Assets Before Other Changes	933,289	(878,609)	-	54,680	865,258
Other Changes					
Donation - City of Dunedin	(969,322)	969,322	-	-	-
Change in Net Assets	(36,033)	90,713	-	54,680	865,258
Net Assets, Beginning of Year	282,620	6,420,237	825,351	7,528,208	6,662,950
Net Assets, End of Year	\$ 246,587	\$ 6,510,950	\$ 825,351	\$ 7,582,888	\$ 7,528,208

See accompanying notes to financial statements

**THE DUNEDIN FINE ART CENTER, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue				
Membership	\$ 69,505	\$ -	\$ -	\$ 69,505
Education	644,399	-	-	644,399
Gallery Shop sales (net of costs of goods sold of \$40,373)	26,960	-	-	26,960
Exhibition sponsorships (net of direct costs of \$1,458)	26,788	-	-	26,788
Special events (net of direct costs of \$55,832)	156,241	-	-	156,241
Grant income	117,391	500,000	-	617,391
Contributions	91,345	850,721	-	942,066
Program support sponsorships	7,759	-	-	7,759
Investment income, net	-	21,359	-	21,359
Net realized and unrealized loss on investments	-	(80,821)	-	(80,821)
In-kind donations	427,686	-	-	427,686
Other	433,538	-	-	433,538
Net assets released from restrictions	984,753	(984,753)	-	-
Total public support and revenue	2,986,365	306,506	-	3,292,871
Expenses				
Program service:				
Art education and cultural awareness	1,774,986	-	-	1,774,986
Support services:				
Management and general	300,567	-	-	300,567
Fundraising	352,060	-	-	352,060
Total support services	652,627	-	-	652,627
Total expenses	2,427,613	-	-	2,427,613
Change in Net Assets	558,752	306,506	-	865,258
Net Assets, Beginning of Year	(276,132)	6,113,731	825,351	6,662,950
Net Assets, End of Year	<u>\$ 282,620</u>	<u>\$ 6,420,237</u>	<u>\$ 825,351</u>	<u>\$ 7,528,208</u>

See accompanying notes to financial statements

**THE DUNEDIN FINE ART CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)**

	Supporting Services				Total Expenses	
	Program Services	Management and General	Fund Raising	Total Support Services	2016	2015
Salaries and related costs:						
Salaries	\$ 446,929	\$ 100,059	\$ 120,071	\$ 220,130	\$ 667,059	\$ 591,181
Employee benefits	62,602	14,016	16,819	30,835	93,437	69,166
Payroll taxes	34,248	7,667	9,201	16,868	51,116	44,330
Total salaries and related costs	543,779	121,742	146,091	267,833	811,612	704,677
Other expenses:						
Education	345,805	-	-	-	345,805	325,542
Public relations	74,856	16,759	20,111	36,870	111,726	101,555
Professional fees	8,375	1,875	2,250	4,125	12,500	90,326
Administrative	75,842	13,384	-	13,384	89,226	67,286
Utilities and custodial services	38,058	8,520	10,225	18,745	56,803	51,117
Exhibitions costs	40,196	-	-	-	40,196	46,603
Contract services	14,896	3,335	4,002	7,337	22,233	35,019
Other expenses	19,196	-	-	-	19,196	28,656
Interest	11,646	-	-	-	11,646	19,562
Computer	13,842	3,099	3,719	6,818	20,660	18,073
Grants expense	3,638	815	978	1,793	5,431	17,170
Credit card fees	16,925	3,789	4,547	8,336	25,261	17,099
Insurance	17,382	3,892	4,670	8,562	25,944	16,547
Equipment rental and maintenance	13,665	3,059	3,671	6,730	20,395	15,668
Staff training	7,376	1,651	1,981	3,632	11,008	13,858
Repair and maintenance	4,479	1,003	1,203	2,206	6,685	12,530
Office expense	4,665	1,044	1,253	2,297	6,962	11,197
Dues and subscriptions	3,560	797	956	1,753	5,313	4,471
Membership	-	-	234	234	234	3,497
Postage	2,177	487	585	1,072	3,249	2,310
Total other expense	716,579	63,509	60,385	123,894	840,473	898,086
Expenses before depreciation and in-kind expenses	1,260,358	185,251	206,476	391,727	1,652,085	1,602,763
In-kind expenses	501,813	112,346	134,816	247,162	748,975	427,686
Depreciation and amortization	209,165	46,828	56,194	103,022	312,187	397,164
Total functional expenses	\$ 1,971,336	\$ 344,425	\$ 397,486	\$ 741,911	\$ 2,713,247	\$ 2,427,613

See accompanying notes to financial statements

**THE DUNEDIN FINE ART CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 54,680	\$ 865,258
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	312,187	397,164
Donated property	(18,841)	-
Realized loss (gain) on investments	10,569	(8,118)
Unrealized (gain) loss on investments	(78,342)	88,939
Increase (decrease) in operating assets		
Grants/other receivables and promises to give, net	448,520	(409,105)
Inventory	(3,199)	(97)
Prepaid expenses	1,823	(1,351)
Decrease (increase) in operating liabilities		
Accounts payable	9,851	3,855
Deferred income	32,790	24,698
Accrued expenses	(22,827)	41,683
	<u>747,211</u>	<u>1,002,926</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Cash paid for leasehold interest/property and equipment	(975,603)	(105,777)
Purchases of investments	(608,191)	(571,529)
Proceeds from sale of investments	653,158	609,143
	<u>(930,636)</u>	<u>(68,163)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities		
Payments on note payable	(99,983)	(485,000)
	<u>(99,983)</u>	<u>(485,000)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(283,408)	449,763
Cash and Cash Equivalents, Beginning of Year (including restricted cash of \$223,593 at September 30, 2015)	<u>691,669</u>	<u>241,906</u>
Cash and Cash Equivalents, End of Year (including restricted cash of \$309,483 at September 30, 2016)	<u>\$ 408,261</u>	<u>\$ 691,669</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 11,646</u>	<u>\$ 19,562</u>
Noncash Transactions:		
Donation to City of Dunedin/tranfer of leasehold interest	<u>\$ 969,322</u>	<u>\$ -</u>

See accompanying notes to financial statements

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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

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.

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, 2016 AND 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 ended September 30, 2016 and 2015, 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.

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.

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, 2016 AND 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2016 and 2015, no allowance was deemed necessary by management.

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.

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 \$1,500 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 three to twenty years.

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.

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, 2016 AND 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

Deferred Income

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

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.

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.

**THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Uncertain Tax Positions - Continued

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.

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.

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, 2015.

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 the second floor of the west wing was conveyed effective September 30, 2016. These amounts are reflected as an unamortized leasehold interest on the statements of financial position as of September 30, 2016 and 2015 (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, 2016 and 2015 was \$86,861 and \$90,278, respectively.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE D - PROMISES TO GIVE

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

	<u>2016</u>	<u>2015</u>
Unrestricted promises to give	\$ 222,333	\$ 670,556
Less unamortized discount	<u>(3,250)</u>	<u>(3,250)</u>
Net unrestricted promises to give	<u>\$ 219,083</u>	<u>\$ 667,306</u>
Amounts due in:		
Less than one year	\$ 150,000	\$ 577,056
One to five years	<u>72,333</u>	<u>93,500</u>
	<u>\$ 222,333</u>	<u>\$ 670,556</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>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 62,360	\$ 62,360	\$ 82,363	\$ 82,363
Fixed-income securities	464,685	475,515	530,812	509,444
Equity mutual funds	362,990	415,412	380,204	399,049
Alternative investment funds	176,392	171,067	112,488	106,970
Real asset funds	<u>99,489</u>	<u>108,118</u>	<u>115,586</u>	<u>111,840</u>
	<u>\$ 1,165,916</u>	<u>\$ 1,232,472</u>	<u>\$ 1,221,453</u>	<u>\$ 1,209,666</u>

**THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

NOTE E - INVESTMENTS - CONTINUED

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

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 29,317	\$ 31,507
Investment expense	<u>(9,447)</u>	<u>(10,148)</u>
	19,870	21,359
Unrealized gain (loss) on investments	78,342	(88,939)
Realized (loss) gain on investments	<u>(10,569)</u>	<u>8,118</u>
	<u>67,773</u>	<u>(80,821)</u>
Net investment return	<u>\$ 87,643</u>	<u>\$ (59,462)</u>

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 95,376	\$ 95,443
Library	3,914	3,914
Equipment	299,352	235,763
Construction	<u>-</u>	<u>38,400</u>
Total property and equipment	398,642	373,520
Less accumulated depreciation	<u>(286,170)</u>	<u>(256,452)</u>
	<u>\$ 112,472</u>	<u>\$ 117,068</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 second floor was completed in June 2016 with total construction costs of \$969,322.

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 in fiscal year 2014 and the second floor was conveyed to the City as of September 30, 2016 (see **NOTE G**).

Total depreciation expense was \$29,718 and \$130,847 for the years ended September 30, 2016 and 2015, respectively.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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. Additionally, as of September 30, 2016, the second floor was completed and conveyed to the City. These leasehold interest are being amortized using the straight-line method over the life of the leasehold. The details of the transactions follow:

Leasehold Interest	<u>2016</u>	<u>2015</u>
Conveyed to the City of Dunedin in fiscal year 2014	\$ 6,620,800	\$ 6,620,800
Additional conveyance as of September 30, 2016	969,322	-
Accumulated amortization	<u>(1,589,026)</u>	<u>(1,306,557)</u>
Unamortized leasehold interest	<u><u>\$ 6,001,096</u></u>	<u><u>\$ 5,314,243</u></u>

Amortization expense and amount released from restriction related to these leasehold interest for the years ended September 30, 2016 and 2015, was approximately \$282,469 and \$266,317, respectively.

NOTE H - CONTRIBUTED SERVICES AND IN-KIND DONATIONS

During the years ended September 30, 2016 and 2015, contributions of materials and supplies and professional services were recorded as contributions revenue as follows:

	<u>2016</u>	<u>2015</u>
Maintenance services	\$ 86,861	\$ 90,278
Exhibits	3,776	5,565
Professional services	2,079	2,850
Property	18,841	-
Events	74,615	117,410
Public relations and marketing	<u>581,644</u>	<u>211,583</u>
	<u><u>\$ 767,816</u></u>	<u><u>\$ 427,686</u></u>

Donated property consists of capitalized assets that will be depreciated over the life of the asset. These assets were part of the second floor addition and were conveyed to the City as of September 30, 2016 (see **NOTE G**).

**THE DUNEDIN FINE ART CENTER, INC.
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NOTE I - TEMPORARY RESTRICTIONS ON NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Restricted for capital projects	\$ 442,818	\$ 1,011,961
Unamortized leasehold interest	6,001,096	5,314,243
Scholarships	8,221	8,221
COCA adults	-	7
Sizzlin' summer	3,275	16,162
Memorials - adult COC	6,610	9,656
Clay fund	12,249	11,558
PAVA adult ed	1,400	-
Graduating Senior	1,000	-
David Scales Veteran's	1,807	1,807
Duke Energy - Industrial Arts	8,000	-
Betty Perkins Library	50	-
Just Imagine	13,224	9,532
Pinellas Community Foundation	1,200	10,000
Pougialis Grant (1)	10,000	27,090
	<u>\$ 6,510,950</u>	<u>\$ 6,420,237</u>

Net assets released from restrictions were comprised of the following:

	<u>2016</u>	<u>2015</u>
Restricted for capital projects	\$ 1,046,805	\$ 553,879
Endowment earnings appropriated for expenditure	87,643	(59,463)
Purpose restrictions expired	269,982	224,020
Purpose restriction - leasehold improvements donated to City of Dunedin	<u>282,469</u>	<u>266,317</u>
	<u>\$ 1,686,899</u>	<u>\$ 984,753</u>

(1) DFAC was named as a beneficiary in the Pougialis trust that became available for distribution in April 2011. The purpose of the trust is "to develop and maintain an art education program at the Dunedin Fine Art Center with said Center's assistance in developing the curriculum for elementary school age children." After lengthy legal proceedings and court mandated mediation, the case was settled in August 2014 and an independent grant awarding committee was formed to approve annual distributions from the trust. As of September 30, 2016 and 2015 the Organization received \$195,892 and \$225,000, respectively, from the trust. As of September 30, 2016 and 2015, the Organization expended \$212,982 and \$197,910, respectively, in approved expenditures.

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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, 2016 and 2015.

NOTE K - LEASES

DFAC leases certain equipment and property under various operating leases. The terms of these leases range from 36 months to 60 months. Total lease expense was approximately \$11,000 and \$12,000 for the years ended September 30, 2016 and 2015, 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>
2017	\$ 14,321
2018	9,464
2019	6,386
2020	6,386
	<u>\$ 36,557</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, 2016 and 2015.

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, alternative investment 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, 2016 AND 2015**

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, 2016 and 2015 for each of the fair value hierarchy levels:

Fair value of assets measured on a recurring basis at September 30, 2016 is as follows:

Fair Value Measurements at Reporting Date Using				
Description	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3	Total Fair Value
Assets:				
Money market funds	\$ 62,360	\$ -	\$ -	\$ 62,360
Fixed-income securities	475,515	-	-	475,515
Equity mutual funds	415,412	-	-	415,412
Alternative investment funds	171,067	-	-	171,067
Real asset funds	108,118	-	-	108,118
Total assets at fair value	\$ 1,232,472	\$ -	\$ -	\$ 1,232,472

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

Fair Value Measurements at Reporting Date Using				
Description	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3	Total Fair Value
Assets:				
Money market funds	\$ 82,363	\$ -	\$ -	\$ 82,363
Fixed-income securities	509,444	-	-	509,444
Equity mutual funds	399,049	-	-	399,049
Alternative investment funds	106,970	-	-	106,970
Real asset funds	111,840	-	-	111,840
Total assets at fair value	\$ 1,209,666	\$ -	\$ -	\$ 1,209,666

THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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.

DFAC received \$225,351 from an estate in fiscal 2000 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.

DFAC received a restricted endowment contribution of \$240,000 from the State of Florida in 2006. 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.

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 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.

In accordance with 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

**THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE M - ENDOWMENT FUND - CONTINUED

For the years ended September 30, 2016 and 2015, 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:

	2016	2015
Investments	\$ 1,232,472	\$ 1,209,666

Summary of Endowment Assets September 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment	\$ 407,121	\$ -	\$ -	\$ 407,121
Donor-restricted endowment	-	-	825,351	825,351
	\$ 407,121	\$ -	\$ 825,351	\$ 1,232,472

Summary of Endowment Assets September 30, 2015:

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

**THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

NOTE M - ENDOWMENT FUND - CONTINUED

Changes in endowment net assets as of September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 384,315	\$ -	\$ 825,351	\$ 1,209,666
Interest and dividends	-	19,870	-	19,870
Net investment depreciation	-	67,773	-	67,773
Released from restriction	22,806	(87,643)	-	(64,837)
Endowment net assets, ending	<u>\$ 407,121</u>	<u>\$ -</u>	<u>\$ 825,351</u>	<u>\$ 1,232,472</u>

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	(118,435)	59,462	-	(58,973)
Endowment net assets, ending	<u>\$ 384,315</u>	<u>\$ -</u>	<u>\$ 825,351</u>	<u>\$ 1,209,666</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, 2016 AND 2015

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 revolving line-of-credit in July 2014 with a financial institution for \$100,000. Subsequent to year-end, the line-of-credit was increased to \$250,000. 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 the line-of-credit at September 30, 2016 and 2015.

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.

Subsequent to year-end, the note was modified. Under the new debt agreement, dated November 25, 2016, the revised principal amount is \$186,026 with monthly payments of \$2,110.42 for 27 months at 3.95% fixed interest starting on December 24, 2016. March 24, 2019 interest increases to a minimum of 4.96% for 55 months when interest is to be adjusted to the weekly average yield of five-year US Treasuries (monthly payments may be higher). There is a final payment of \$43,545.60 due at maturity on February 24, 2024.

**THE DUNEDIN FINE ART CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE O - NOTE PAYABLE - CONTINUED

Based on the loan modification the expected payments on the note are as follows:

Years Ending September 30,	Amount
2017	\$ 44,196
2018	18,918
2019	18,850
2020	19,157
2021	20,129
Thereafter	93,767
	\$ 215,017

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, 2016 and 2015 was \$17,290 and \$14,030, 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 12, 2017, 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, except as disclosed in **NOTE N AND NOTE O**.