

COLORADO SPRINGS FINE ARTS CENTER

Financial Statements

For the Year Ended August 31, 2016,

Supplemental Consolidating Information

And

Independent Auditors' Report

COLORADO SPRINGS FINE ARTS CENTER

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Colorado Springs Fine Arts Center

We have audited the accompanying financial statements of Colorado Springs Fine Arts Center (the Fine Arts Center), which comprise the balance sheet as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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.

Basis for Qualified Opinion

As discussed in Note 2 to the financial statements, the Fine Arts Center is financially interrelated with the Colorado Springs Fine Arts Center Foundation (Foundation). Accounting principles generally accepted in the United States of America require the Fine Arts Center to prepare combined financial statements with the Foundation as a result of the Fine Arts Center's control over the Foundation and economic interest in the Foundation. The Fine Arts Center does not present its financial statements combined with the Foundation. If combined financial statements were presented at August 31, 2016, total assets and net assets would increase by \$13,634,724, total revenue would decrease by \$49,298 and total expenses would increase by \$50,555.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Springs Fine Arts Center as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Fine Arts Center's 2015 financial statements and our report dated November 23, 2015 expressed a qualified opinion on those financial statements because of the departure from generally accepted accounting principles described in the Basis for Qualified Opinion paragraph. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental consolidating balance sheet and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements as a whole.

Stockman Kast Ryan & Co., LLP

November 21, 2016

COLORADO SPRINGS FINE ARTS CENTER

BALANCE SHEET

AUGUST 31, 2016 (with comparative totals for 2015)

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 59,565	\$ 118,113
Accounts receivable	22,924	27,353
Current portion of pledges receivable, net	348,175	249,551
Current portion of pledge receivable from Foundation	200,000	—
Prepaid expenses and other assets	297,204	213,966
Investments held for debt service	<u>1,240,000</u>	<u>1,190,000</u>
Total	2,167,868	1,798,983
PLEDGES RECEIVABLE, NET	27,993	—
PLEDGE RECEIVABLE FROM FOUNDATION	565,000	—
INVESTMENTS, AT FAIR VALUE	717,012	807,647
RESTRICTED INVESTMENTS	500,000	500,000
INVESTMENTS HELD FOR DEBT SERVICE	2,784,353	3,931,645
PROPERTY AND EQUIPMENT, NET	20,601,906	21,802,502
BOND ISSUANCE COSTS, NET	42,434	51,065
ART COLLECTION	<u>—</u>	<u>—</u>
TOTAL	<u>\$ 27,406,566</u>	<u>\$ 28,891,842</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 305,661	\$ 286,365
Accrued expenses	139,772	172,024
Deferred revenue	438,846	546,525
Line of credit	244,323	—
Current portion of note payable to Foundation	—	200,000
Current portion of demand development revenue bonds payable	<u>1,240,000</u>	<u>1,190,000</u>
Total	2,368,602	2,394,914
NOTE PAYABLE TO FOUNDATION	—	250,000
DEMAND DEVELOPMENT REVENUE BONDS PAYABLE	5,502,875	6,738,375
FAIR VALUE OF INTEREST RATE SWAP AGREEMENT	<u>315,899</u>	<u>435,711</u>
Total	<u>8,187,376</u>	<u>9,819,000</u>
NET ASSETS		
Unrestricted	17,330,322	17,985,946
Temporarily restricted	1,285,704	483,732
Permanently restricted	<u>603,164</u>	<u>603,164</u>
Total	<u>19,219,190</u>	<u>19,072,842</u>
TOTAL	<u>\$ 27,406,566</u>	<u>\$ 28,891,842</u>

See notes to financial statements.

COLORADO SPRINGS FINE ARTS CENTER

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016 (with comparative totals for 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
SUPPORT AND REVENUE					
Contributions from Foundation	\$ 1,134,405	\$ 1,000,000	\$ —	\$ 2,134,405	\$ 789,928
Program revenue	1,644,246	—	—	1,644,246	1,792,311
Gifts and grants	1,179,509	235,290	—	1,414,799	1,197,822
Gifts of art	448,525	—	—	448,525	203,650
Events	366,252	—	—	366,252	324,601
Auxiliary activities	360,704	—	—	360,704	475,211
Membership dues	266,972	—	—	266,972	211,778
Investment income (loss)	254,683	—	—	254,683	(172,154)
Gain on interest rate swap	119,812	—	—	119,812	40,757
Gift shop sales, net	7,086	—	—	7,086	32,974
Net assets released from restrictions:					
Satisfaction of purpose restrictions	155,361	(155,361)	—	—	—
Satisfaction of time restrictions	<u>277,957</u>	<u>(277,957)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>6,215,512</u>	<u>801,972</u>	<u>—</u>	<u>7,017,484</u>	<u>4,896,878</u>
EXPENSES					
Program services:					
Occupancy	2,397,020	—	—	2,397,020	2,551,881
Performing arts	1,104,772	—	—	1,104,772	1,094,325
Museum	472,481	—	—	472,481	655,282
Acquisitions – gifts of art	448,525	—	—	448,525	203,650
Bemis Art School	406,125	—	—	406,125	383,245
Events	267,568	—	—	267,568	298,246
Purchase of art objects	7,960	—	—	7,960	—
Support services:					
Management and general	669,736	—	—	669,736	554,982
Communications	465,662	—	—	465,662	616,022
Fund raising	383,862	—	—	383,862	347,000
Auxiliary	160,486	—	—	160,486	136,671
Premises	76,154	—	—	76,154	80,388
Financing	<u>10,785</u>	<u>—</u>	<u>—</u>	<u>10,785</u>	<u>12,167</u>
Total	<u>6,871,136</u>	<u>—</u>	<u>—</u>	<u>6,871,136</u>	<u>6,933,851</u>
CHANGE IN NET ASSETS	(655,624)	801,972	—	146,348	(2,036,981)
NET ASSETS, Beginning of year	<u>17,985,946</u>	<u>483,732</u>	<u>603,164</u>	<u>19,072,842</u>	<u>21,109,823</u>
NET ASSETS, End of year	<u>\$ 17,330,322</u>	<u>\$ 1,285,704</u>	<u>\$ 603,164</u>	<u>\$ 19,219,190</u>	<u>\$ 19,072,842</u>

See notes to financial statements.

COLORADO SPRINGS FINE ARTS CENTER

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED AUGUST 31, 2016 (with comparative totals for 2015)

	2016	2015
OPERATING ACTIVITIES		
Change in net assets	\$ 146,348	\$ (2,036,981)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized investment (gains) losses	(112,846)	407,170
Depreciation and amortization	1,331,138	1,358,874
Forgiveness of note payable to Foundation	(250,000)	—
Gain on interest rate swap	(119,812)	(40,757)
Loss on disposal of property and equipment	—	4,965
Contributions restricted for long-term purposes	(1,241,360)	(55,313)
Accession of art for collection	7,960	—
Changes in operating assets and liabilities:		
Accounts receivable	4,429	(6,795)
Pledges receivable, net	60,743	68,893
Prepaid expenses and other assets	(83,238)	116,057
Accounts payable and accrued expenses	(12,956)	64,783
Deferred revenue	<u>(107,679)</u>	<u>163,153</u>
Net cash provided by (used in) operating activities	<u>(377,273)</u>	<u>44,049</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(117,411)	(139,499)
Purchases of investments	(1,715,069)	(1,590,445)
Proceeds from sales of investments	3,015,842	2,761,979
Purchases of art objects	<u>(7,960)</u>	<u>—</u>
Net cash provided by investing activities	<u>1,175,402</u>	<u>1,032,035</u>
FINANCING ACTIVITIES		
Payments on bonds payable	(1,190,000)	(1,140,000)
Net advances (repayments) on line of credit	244,323	(358,585)
Proceeds from issuance of note payable to Foundation	—	500,000
Payments on note payable to Foundation	(200,000)	(50,000)
Collection of contributions restricted for investment in property and equipment	<u>289,000</u>	<u>87,500</u>
Net cash used in financing activities	<u>(856,677)</u>	<u>(961,085)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,548)	114,999
CASH AND CASH EQUIVALENTS, Beginning of year	<u>118,113</u>	<u>3,114</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 59,565</u>	<u>\$ 118,113</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 186,583</u>	<u>\$ 221,076</u>

See notes to financial statements.

COLORADO SPRINGS FINE ARTS CENTER

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Colorado Springs Fine Arts Center (the Fine Arts Center) was organized to preserve and exhibit collections of objects of art of all kinds, and to provide art instruction and entertainment.

Basis of Presentation — The accompanying financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (US GAAP). Accordingly, such information should be read in conjunction with the Fine Arts Center's financial statements for the year ended August 31, 2015, from which the summarized information was derived.

The Fine Arts Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the Fine Arts Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Fine Arts Center.

Contributions — Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Fine Arts Center reports gifts of furnishings and equipment as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire furnishings and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Fine Arts Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Fine Arts Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Investments — Investments are carried at fair value. Corporate obligations are priced by the asset custodian based on quoted prices for identical or similar assets in active markets. Common stock, mutual funds, real estate investment trusts, real asset funds and money market accounts are valued based on quoted prices in active markets. Certificates of deposit are valued at cost which approximates fair value. Realized and unrealized gains and losses are reflected in the statement of activities.

Earnings on restricted investments are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the earnings are recognized. All other earnings on donor restricted investments are recognized as an increase in temporarily restricted net assets according to the nature of the restrictions on the original gift. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services — The Fine Arts Center recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by persons possessing those skills and would typically need to be purchased if not provided by donation. During the years ended August 31, 2016 and 2015, a substantial number of volunteers donated time to the Fine Arts Center's program services and its fund raising activities; however, the estimated value was not recorded, because they did not meet the criteria described above.

Cash and Cash Equivalents — For purposes of the statement of cash flows, the Fine Arts Center considers all highly liquid investments maturing within three months of their acquisition to be cash equivalents, if not restricted by contributors or designated by the board for long-term investment. Highly liquid investments restricted by contributors or designated by the board for long-term investments are classified as investments.

Accounts Receivable — Accounts receivable are stated at the invoice amount. Management provides for probable uncollectible amounts through a provision for bad debts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. No allowance for uncollectible accounts is recorded as of August 31, 2016 and 2015 as management believes accounts receivable are fully collectible.

Pledges Receivable — Unconditional promises to give are recognized as support and assets in the period received. Promises to give are recorded at net realizable value if expected to be collected within one year and at the present value of estimated future cash flows if expected to be collected in more than one year. The discounts on these amounts are computed using a risk adjusted interest rate (4.5% in 2016). Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management has established an allowance for uncollectible pledges based on historical collection information and existing economic conditions.

Property and Equipment — All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are recorded at cost or at fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets which range from seven to forty years for buildings and improvements and from three to ten years for furnishings and equipment.

Deferred Revenue — Membership dues and advance ticket sales for future theater productions and other events are deferred and recognized during the periods to which the dues and ticket sales relate.

Tax Status — The Fine Arts Center is a not-for-profit corporation which is classified as a public charity by the Internal Revenue Service, and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management believes the Fine Arts Center does not have any uncertain tax positions that are material to the financial statements. Tax years that remain subject to examination include the year ended August 31, 2013 through the current period.

Use of Estimates — Preparation of the Fine Arts Center's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Instruments — In order to reduce the risk of volatility in interest rates relative to its variable rate bonds payable, the Fine Arts Center entered into an interest rate swap agreement. Changes to the fair value of the interest rate swap agreement are accounted for as increases or decreases in financing expense.

Subsequent Events — The Fine Arts Center has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

Reclassification — Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2. AFFILIATED ORGANIZATION

The Fine Arts Center's Board of Trustees established a separate corporation known as the Colorado Springs Fine Arts Center Foundation (the Foundation) and in 1996 transferred to the Foundation a significant portion of the Fine Arts Center's investments, subject to any restrictions associated with the original gift. The charter documents of the Foundation require that income and net assets of the Foundation be used solely to benefit the Fine Arts Center. The members of the Board of Directors of the Foundation are elected by the Board of Trustees of the Fine Arts Center and the Fine Arts Center Board may remove Directors of the Foundation, thereby giving the Fine Arts Center control of the Foundation. As a result of the Fine Arts Center's control over the Foundation and economic interest in the Foundation, generally accepted accounting principles require the Fine Arts Center to present combined financial statements with the Foundation. The Fine Arts Center does not present its financial statements combined with the Foundation because management believes separate statements are more useful to readers. Following are condensed financial statements (derived from audited financial statements) of the Foundation as of August 31, 2016 and 2015 and for the years then ended.

Condensed Balance Sheet

	2016	2015
ASSETS		
Investments, at fair value	\$ 13,909,724	\$ 13,279,577
Pledges receivable	490,000	—
Due from the Fine Arts Center	—	5,000
Note receivable from the Fine Arts Center	<u>—</u>	<u>450,000</u>
Total	<u>14,399,724</u>	<u>13,734,577</u>
LIABILITIES		
Due to the Fine Arts Center	<u>765,000</u>	<u>—</u>
Total	<u>765,000</u>	<u>—</u>
NET ASSETS		
Temporarily restricted	10,101,711	10,516,564
Permanently restricted	<u>3,533,013</u>	<u>3,218,013</u>
Total	<u>13,634,724</u>	<u>13,734,577</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,399,724</u>	<u>\$ 13,734,577</u>

Condensed Statement of Activities

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE					
Investment income (loss)	\$ —	\$ 770,107	\$ —	\$ 770,107	\$ (148,179)
Contributions	—	1,000,000	315,000	1,315,000	10,156
Net assets released from restrictions	<u>2,184,960</u>	<u>(2,184,960)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>2,184,960</u>	<u>(414,853)</u>	<u>315,000</u>	<u>2,085,107</u>	<u>(138,023)</u>
EXPENSES					
Contributions to the Fine Arts Center	2,134,405	—	—	2,134,405	789,928
Other	<u>50,555</u>	<u>—</u>	<u>—</u>	<u>50,555</u>	<u>48,097</u>
Total	<u>2,184,960</u>	<u>—</u>	<u>—</u>	<u>2,184,960</u>	<u>838,025</u>
Change in net assets	—	(414,853)	315,000	(99,853)	(976,048)
NET ASSETS, Beginning of year	<u>—</u>	<u>10,516,564</u>	<u>3,218,013</u>	<u>13,734,577</u>	<u>14,710,625</u>
NET ASSETS, End of year	<u>\$ —</u>	<u>\$ 10,101,711</u>	<u>\$ 3,533,013</u>	<u>\$ 13,634,724</u>	<u>\$ 13,734,577</u>

During the year ended August 31, 2015, the Fine Arts Center received \$500,000 from the Foundation under an unsecured note payable bearing no interest. The note required quarterly principal payments of \$50,000 which were made as a reduction of the donations the Fine Arts Center received from the Foundation and contained a provision for forgiving \$250,000 of principal if required payments were made. During the year ended August 31, 2016, the Fine Arts Center made principal payments of \$200,000 and \$250,000 of principal was forgiven. The promissory note had a balance of \$450,000 as of August 31, 2015 and no outstanding balance as of August 31, 2016.

During the year ended August 31, 2016, the Foundation received a \$1,000,000 pledge from a board member of the Fine Arts Center with the purpose of acting as a fiscal agent for the Fine Arts Center. The Foundation has collected \$500,000 of the pledge and has paid \$225,000 to the Fine Arts Center. The Fine Arts Center collected \$10,000 of the pledge. As of August 31, 2016, the Foundation has recorded a pledge receivable from the donor for \$490,000, and has recognized a liability to the Fine Arts Center of \$765,000. The pledge receivable is considered to be fully collectible.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Fine Arts Center is subject to the provisions of the *Fair Value Measurements* accounting standard which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Fine Arts Center has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The investment'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 table sets forth by level, within the fair value hierarchy, the Fine Arts Center's financial instruments at fair value as of August 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016:				
ASSETS				
Domestic common stock	\$ 1,569,312	\$ 1,569,312	\$ —	\$ —
Domestic equity mutual funds	837,485	837,485	—	—
Corporate obligations	802,718	802,718	—	—
International equity mutual funds	501,813	501,813	—	—
Certificates of deposit-restricted	500,000	500,000	—	—
Domestic real asset funds	441,420	441,420	—	—
International common stock	285,680	285,680	—	—
Domestic fixed income mutual funds	176,543	176,543	—	—
International fixed income mutual funds	97,519	97,519	—	—
Money market accounts	<u>28,875</u>	<u>28,875</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 5,241,365</u>	<u>\$ 5,241,365</u>	<u>\$ —</u>	<u>\$ —</u>
LIABILITIES				
Interest rate swap agreements	<u>\$ 315,899</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 315,899</u>

2015:**ASSETS**

Domestic common stock	\$ 1,592,172	\$ 1,592,172	\$ —	\$ —
Domestic equity mutual funds	1,097,610	1,097,610	—	—
International equity mutual funds	1,019,555	1,019,555	—	—
Corporate obligations	502,485	502,485	—	—
Certificates of deposit-restricted	500,000	500,000	—	—
Domestic real asset funds	472,962	472,962	—	—
Domestic fixed income mutual funds	387,171	387,171	—	—
International common stock	316,137	316,137	—	—
International fixed income mutual funds	204,214	204,214	—	—
Money market accounts	192,007	192,007	—	—
Real estate investment trusts	<u>144,979</u>	<u>144,979</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 6,429,292</u>	<u>\$ 6,429,292</u>	<u>\$ —</u>	<u>\$ —</u>

LIABILITIES

Interest rate swap agreements	<u>\$ 435,711</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 435,711</u>
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Assets measured at fair value are included in the following amounts on the balance sheets as of August 31:

	2016	2015
Investments, at fair value	\$ 717,012	\$ 807,647
Restricted investments	500,000	500,000
Investments held for debt service	<u>4,024,353</u>	<u>5,121,645</u>
Total	<u>\$ 5,241,365</u>	<u>\$ 6,429,292</u>

Liabilities measured on a recurring basis using significant unobservable inputs (Level 3) are as follows:

Interest Rate Swap Agreements, September 1, 2014	\$ (476,468)
Change in value recognized as a gain	<u>40,757</u>
Interest Rate Swap Agreements, August 31, 2015	(435,711)
Change in value recognized as a gain	<u>119,812</u>
Interest Rate Swap Agreements, August 31, 2016	<u>\$ (315,899)</u>

Fair value of the interest rate swap agreement is determined by the counterparty to the swap and is based on a discounted future cash flows approach.

Restricted investments are held as collateral for the Fine Arts Center's line of credit (see Note 8).

Investments held for debt service are held as collateral for the Fine Arts Center's demand development revenue bonds payable (see Note 6).

Investment income consisted of the following for the years ended August 31:

	2016	2015
Interest and dividend income	\$ 141,837	\$ 235,016
Realized and unrealized investment gains (losses)	<u>112,846</u>	<u>(407,170)</u>
Total	<u>\$ 254,683</u>	<u>\$ (172,154)</u>

4. PLEDGES RECEIVABLE

Unconditional pledges receivable are as follows as of August 31:

	2016	2015
Due in one year	\$ 461,225	\$ 394,207
Due in two to five years	<u>30,000</u>	<u>—</u>
Total	491,225	394,207
Less unamortized discount	26,869	16,968
Less allowance for uncollectible pledges	<u>88,188</u>	<u>127,688</u>
Total	376,168	249,551
Less current portion	<u>348,175</u>	<u>249,551</u>
Long-term portion	<u>\$ 27,993</u>	<u>\$ —</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of August 31:

	2016	2015
Buildings and improvements	\$ 36,354,107	\$ 36,345,664
Furniture, fixtures and equipment	2,945,429	2,858,067
Construction in progress	<u>21,606</u>	<u>—</u>
Total	39,321,142	39,203,731
Less accumulated depreciation	<u>18,719,236</u>	<u>17,401,229</u>
Total	<u>\$ 20,601,906</u>	<u>\$ 21,802,502</u>

Depreciation expense was \$1,318,006 and \$1,345,743 during the years ending August 31, 2016 and 2015, respectively.

6. DEMAND DEVELOPMENT REVENUE BONDS PAYABLE

In July 2006, the City of Colorado Springs, Colorado (the City) issued Demand Development Revenue Bonds (the Bonds) on behalf of the Fine Arts Center. In connection with the issuance of the Bonds, the Fine Arts Center entered into a loan agreement with the City to borrow \$15,000,000, an amount equal to the bonds issued. Principal payments are due annually through July 2021. Interest is paid quarterly at a variable rate. The bonds were issued at a discount of which the unamortized portion at August 31, 2016 and 2015 was \$22,125 and \$26,625, respectively. The debt is secured by land, buildings and improvements, inventory, investments and equipment.

The Fine Arts Center has an irrevocable letter of credit agreement with a bank in the amount of \$15,431,507 in order to credit enhance the Bonds and provide security to the holders of the Bonds. The letter of credit expires August 2, 2017. A quarterly fee of .1875% of the outstanding principal balance of the Bonds is paid to the bank.

Future minimum principal payments for the next five years and thereafter are as follows:

2017	\$ 1,240,000
2018	1,295,000
2019	1,350,000
2020	1,410,000
2021	<u>1,470,000</u>
Total	<u>\$ 6,765,000</u>

The Fine Arts Center entered into an interest rate swap agreement during 2010 to fix the interest rate on the remaining bonds at 2.49% through July 1, 2021. The swap agreement was issued with a notional principal amount of \$10,545,000, and \$6,765,000 is outstanding at August 31, 2016. The Fine Arts Center recognized gains of \$119,812 and \$40,757 due to increases in the fair value of the interest rate swap agreements during the years ended August 31, 2016 and 2015, respectively. The fair market value of the interest rate swap at August 31, 2016 and 2015 is \$(315,899) and \$(435,711), respectively, and is included in liabilities in the accompanying financial statements. The fair value was based on information received from the counterparty to the swap and represents an estimate of the market value of the swap using a discounted future cash flows approach. Total interest expense on the bonds net of the interest rate swap agreements for the year ending August 31, 2016 was \$186,938.

7. ART COLLECTION

In conformity with the practice followed by many museums, art objects purchased and donated are not recognized as assets in the accompanying balance sheet. The Fine Arts Center's art objects are held for educational, research and curatorial purposes. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. It is the policy of the Fine Arts Center's management that proceeds from the sale of any collection items be used for the purchase of additional collection items or the conservation of existing collections in accordance with recommendations promulgated by the American Alliance of Museums.

During the year ended August 31, 2016, the Fine Arts Center purchased art objects totaling \$7,960. No art objects were purchased during the year ended August 31, 2015. In addition, during the years ended August 31, 2016 and 2015 the Fine Arts Center received donated works of art valued at \$448,525 and \$203,650, respectively, which have been recorded as revenue and an expense in the accompanying financial statements. There were no deaccessions during the years ended August 31, 2016 or 2015.

8. LINE OF CREDIT

The Fine Arts Center maintains a \$500,000 revolving line of credit arrangement with a bank to provide for working capital as needed. The line of credit bears interest at the bank's prime rate plus .5% with a floor of 4% (4.0% at August 31, 2016), is collateralized by a \$500,000 certificate of deposit and is due May 15, 2017. At August 31, 2016, \$244,323 was outstanding on this line of credit. There was no outstanding balance as of August 31, 2015.

9. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31:

	2016	2015
Pledge receivable from Foundation for the Discovery Gallery	\$ 765,000	\$ —
Pledges receivable for building renovations, debt payment and operating expenses	376,168	249,551
Art collection purchases	81,064	134,637
Other	<u>63,472</u>	<u>99,544</u>
Total	<u>\$ 1,285,704</u>	<u>\$ 483,732</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used for art scholarships, art education and staff education.

10. EMPLOYEE BENEFIT PLAN

The Fine Arts Center maintains a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code. Eligible employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Employer contributions are discretionary as defined in the plan document. The Fine Arts Center did not make contributions to the plan during the years ended August 31, 2016 and 2015.

11. ENDOWMENT FUNDS

The Fine Arts Center's endowment consists of six individual donor-restricted endowment funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Fine Arts Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 the Fine Arts Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fine Arts Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Fine Arts Center 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 Fine Arts Center
- 7) The investment policies of the Fine Arts Center

Endowment Net Asset Composition by Type of Fund as of August 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ <u>(35,007)</u>	\$ <u>4,319</u>	\$ <u>603,164</u>	\$ <u>572,476</u>

Changes in Endowment Net Assets for the year ended August 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	\$ (35,048)	\$ 5,050	\$ 603,164	\$ 573,166
Net appreciation (realized and unrealized)	41	213	—	254
Amounts appropriated for expenditure	<u>—</u>	<u>(944)</u>	<u>—</u>	<u>(944)</u>
Endowment net assets, end of year	\$ <u>(35,007)</u>	\$ <u>4,319</u>	\$ <u>603,164</u>	\$ <u>572,476</u>

Endowment Net Asset Composition by Type of Fund as of August 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ <u>(35,048)</u>	\$ <u>5,050</u>	\$ <u>603,164</u>	\$ <u>573,166</u>

Changes in Endowment Net Assets for the year ended August 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	\$ (35,086)	\$ 1,409	\$ 603,164	\$ 569,487
Net appreciation (realized and unrealized)	38	3,882	—	3,920
Amounts appropriated for expenditure	<u>—</u>	<u>(241)</u>	<u>—</u>	<u>(241)</u>
Endowment net assets, end of year	\$ <u>(35,048)</u>	\$ <u>5,050</u>	\$ <u>603,164</u>	\$ <u>573,166</u>

From time to time, the fair value of assets associated with individual donor-related endowment funds may fall below the level that the donor or UPMIFA requires the Fine Arts Center to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$35,007 and \$35,048 as of August 31, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations.

The Fine Arts 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. Endowment assets include those assets of donor-restricted funds that the Fine Arts Center must hold in perpetuity or for a donor-specified period. Under this policy the endowment assets are invested in a manner that is intended to produce maximum results while assuming a moderate level of investment risk. The Fine Arts Center expects its endowment funds, over time, to provide an average rate of return of 6% over the inflation rate annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Fine Arts 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 Fine Arts 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.

12. CONCENTRATIONS, RISKS AND UNCERTAINTIES

The Fine Arts Center maintains its cash and cash equivalents in bank deposit accounts which, at times, exceed federally insured limits. The Fine Arts Center has not experienced any losses in such accounts.

13. ALLIANCE AGREEMENT WITH COLORADO COLLEGE

On July 1, 2016, the Fine Arts Center entered into an Alliance Agreement (the Agreement) with The Colorado College (CC) which provides for a transition of the ownership, supervision and management of the Fine Arts Center's business, assets and activities to CC over a period ending on June 30, 2020. Beginning July, 1, 2017, operations are referred to as the Continuing FAC Arts Activities and will be operated under the name The Colorado Springs Fine Arts Center at Colorado College (CSFAC@CC). The primary provisions of the agreement are as follows:

- The mission of CSFAC@CC and its Continuing FAC Arts Activities is primarily to provide visual arts, performing arts and arts education to the entire community of the Colorado Springs area consistent with the mission of the Fine Arts Center while also supporting the educational role and mission of CC. CSFAC@CC will continue to provide innovative, educational and multi-disciplinary arts experiences which elevate the individual spirit and inspire community vitality, building upon its history as a unique cultural pillar of the Rocky Mountain region in a manner which advances the CSFAC@CC mission. Programming of the CSFAC@CC shall provide the community with performing arts at the SaGaJi Theatre, arts education through the Bemis School of Art and museum services, and support the educational role and mission of the College. It is intended that the CSFAC@CC will be a resource for College students and faculty and further the mission of the College, but this will not substantially alter the role of the CSFAC@CC as an arts institution for the entire community.
- On the date of signing of the Agreement, CC was required to designate \$20,000,000 of their endowment funds to support the activities of the Fine Arts Center. This endowment is subject to CC's Endowment Spending Policy which currently requires annual distributions of 5% of the average quarterly principal balance of the fund for the previous twelve quarters. This designation will become permanent upon the final transfer of assets to CC on June 30, 2020.

- CC assumes the obligation to make all payments required on the bonds payable of the Fine Arts Center beginning July 1, 2016.
- CC will provide funding for real property improvement and maintenance as follows:
 - At least \$500,000 by June 30, 2017 and
 - At least \$1,000,000 in total by June 30, 2020.
- A Management Agreement is in place from September 1, 2016 through June 30, 2017. Under this agreement, Dale Street Properties, LLC (DSP), a wholly owned subsidiary of CC, will manage and operate the Fine Arts Center consistent with the Fine Arts Center's mission including the provision of performing arts at the SaGaJi Theatre, arts education through the Bemis School of Art, and museum services. CC will fund any operating and capital expenditure deficits.
- A Lease Agreement will be in place from July 1, 2017 through June 30, 2020 under which DSP will lease all assets of the Fine Arts Center including the fine arts collection. Use of the assets under the Lease Agreement will be under the name CSFAC@CC.
- On June 30, 2020 the Fine Arts Center will transfer all assets, including the fine arts collection, to CC.
- On June 30, 2020, CC will contribute or designate an amount sufficient to bring the total Fine Arts Center's endowment funding to at least \$45,000,000. The total endowment funding includes the combined Foundation and Fine Arts Center's endowment holdings plus CC's already designated endowment holdings.
- The assets of the Foundation are excluded from the transfer of assets to CC.

COLORADO SPRINGS FINE ARTS CENTER

Supplemental Consolidating Information

COLORADO SPRINGS FINE ARTS CENTER

CONSOLIDATING BALANCE SHEET AUGUST 31, 2016

	Colorado Springs Fine Arts Center	Colorado Springs Fine Arts Center Foundation	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS				
Cash	\$ 59,565	\$ —	\$ —	\$ 59,565
Accounts receivable	22,924	—	—	22,924
Current portion of pledges receivable, net	348,175	490,000	—	838,175
Current portion of pledge receivable from Foundation	200,000	—	(200,000)	—
Prepaid expenses and other assets	297,204	—	—	297,204
Investments held for debt service	<u>1,240,000</u>	<u>—</u>	<u>—</u>	<u>1,240,000</u>
Total	2,167,868	490,000	(200,000)	2,457,868
PLEDGES RECEIVABLE, NET	27,993	—	—	27,993
PLEDGE RECEIVABLE FROM FOUNDATION	565,000	—	(565,000)	—
INVESTMENTS, AT FAIR VALUE	717,012	13,909,724	—	14,626,736
RESTRICTED INVESTMENTS	500,000	—	—	500,000
INVESTMENTS HELD FOR DEBT SERVICE	2,784,353	—	—	2,784,353
PROPERTY AND EQUIPMENT, NET	20,601,906	—	—	20,601,906
BOND ISSUANCE COSTS, NET	42,434	—	—	42,434
ART COLLECTION	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
TOTAL	<u>\$ 27,406,566</u>	<u>\$ 14,399,724</u>	<u>\$ (765,000)</u>	<u>\$ 41,041,290</u>

(Continued)

COLORADO SPRINGS FINE ARTS CENTER

CONSOLIDATING BALANCE SHEET AUGUST 31, 2016

	Colorado Springs Fine Arts Center	Colorado Springs Fine Arts Center Foundation	Eliminations	Consolidated Total
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 305,661	\$ —	\$ —	\$ 305,661
Accrued expenses	139,772	—	—	139,772
Deferred revenue	438,846	—	—	438,846
Line of credit	244,323	—	—	244,323
Current portion of due to the Fine Arts Center	—	200,000	(200,000)	—
Current portion of demand development revenue bonds payable	<u>1,240,000</u>	<u>—</u>	<u>—</u>	<u>1,240,000</u>
Total	2,368,602	200,000	(200,000)	2,368,602
DUE TO THE FINE ARTS CENTER	—	565,000	(565,000)	—
DEMAND DEVELOPMENT REVENUE BONDS PAYABLE	5,502,875	—	—	5,502,875
FAIR VALUE OF INTEREST RATE SWAP AGREEMENT	<u>315,899</u>	<u>—</u>	<u>—</u>	<u>315,899</u>
Total	<u>8,187,376</u>	<u>765,000</u>	<u>(765,000)</u>	<u>8,187,376</u>
NET ASSETS				
Unrestricted	17,330,322	—	—	17,330,322
Temporarily restricted	1,285,704	10,101,711	—	11,387,415
Permanently restricted	<u>603,164</u>	<u>3,533,013</u>	<u>—</u>	<u>4,136,177</u>
Total	<u>19,219,190</u>	<u>13,634,724</u>	<u>—</u>	<u>32,853,914</u>
TOTAL	<u>\$ 27,406,566</u>	<u>\$ 14,399,724</u>	<u>\$ (765,000)</u>	<u>\$ 41,041,290</u>

(Concluded)

COLORADO SPRINGS FINE ARTS CENTER

CONSOLIDATING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED AUGUST 31, 2016

	Colorado Springs Fine Arts Center	Colorado Springs Fine Arts Center Foundation	Eliminations	Consolidated Total
SUPPORT AND REVENUE				
Gifts and grants	\$ 1,414,799	\$ 1,315,000	\$ —	\$ 2,729,799
Program revenue	1,644,246	—	—	1,644,246
Investment income	254,683	770,107	—	1,024,790
Gifts of art	448,525	—	—	448,525
Events	366,252	—	—	366,252
Auxiliary activities	360,704	—	—	360,704
Membership dues	266,972	—	—	266,972
Gain on interest rate swap	119,812	—	—	119,812
Gift shop sales, net	7,086	—	—	7,086
Contributions from Foundation	<u>2,134,405</u>	<u>—</u>	<u>(2,134,405)</u>	<u>—</u>
Total	<u>7,017,484</u>	<u>2,085,107</u>	<u>(2,134,405)</u>	<u>6,968,186</u>
EXPENSES				
Program services:				
Occupancy	2,397,020	—	—	2,397,020
Performing arts	1,104,772	—	—	1,104,772
Museum	472,481	—	—	472,481
Acquisitions – gifts of art	448,525	—	—	448,525
Bemis Art School	406,125	—	—	406,125
Events	267,568	—	—	267,568
Purchase of art objects	7,960	—	—	7,960
Contributions to Fine Arts Center	—	2,134,405	(2,134,405)	—
Support services:				
Management and general	669,736	50,555	—	720,291
Communications	465,662	—	—	465,662
Fund raising	383,862	—	—	383,862
Auxiliary	160,486	—	—	160,486
Premises	76,154	—	—	76,154
Financing	<u>10,785</u>	<u>—</u>	<u>—</u>	<u>10,785</u>
Total	<u>6,871,136</u>	<u>2,184,960</u>	<u>(2,134,405)</u>	<u>6,921,691</u>
CHANGE IN NET ASSETS	<u>\$ 146,348</u>	<u>\$ (99,853)</u>	<u>\$ —</u>	<u>\$ 46,495</u>