stockman kast ryan + CO LLP

COLORADO SPRINGS FINE ARTS CENTER

Financial Statements

For the Ten Months Ended June 30, 2017,

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 June 30, 2017, and the related statements of activities and cash flows for the ten months 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.

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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 June 30, 2017, total assets would increase by $18,736,082, net assets would increase by $18,742,252, total revenue would increase by $3,909,182 and total expenses would decrease by $1,198,346.

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 June 30, 2017, and the changes in its net assets and its cash flows for the ten months 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 2016 financial statements and our report dated November 21, 2016 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, 2016 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

September 12, 2017

COLORADO SPRINGS FINE ARTS CENTER

BALANCE SHEET
JUNE 30, 2017 (with comparative totals for August 31, 2016)

	June 30, 2017	August 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 53,283	$ 59,565
Cash restricted for debt service	4,022,656	—
Accounts receivable	25,037	22,924
Current portion of pledges receivable, net	139,282	348,175
Current portion of pledge receivable from Foundation	—	200,000
Prepaid expenses and other assets	111,761	297,204
Investments held for debt service	—	1,240,000
Total	4,352,019	2,167,868
PLEDGES RECEIVABLE, NET	—	27,993
PLEDGE RECEIVABLE FROM FOUNDATION	—	565,000
INVESTMENTS	—	717,012
RESTRICTED INVESTMENTS	—	500,000
INVESTMENTS HELD FOR DEBT SERVICE	—	2,784,353
PROPERTY AND EQUIPMENT, NET	19,754,281	20,601,906
ART COLLECTION	—	—
TOTAL	$ 24,106,300	$ 27,364,132
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 16,793	$ 305,661
Accrued expenses	115,644	139,772
Deferred revenue	457,855	438,846
Line of credit	—	244,323
Current portion of demand development revenue bonds payable	1,605,000	1,240,000
Total	2,195,292	2,368,602
DEMAND DEVELOPMENT REVENUE BONDS PAYABLE, NET	4,176,383	5,460,441
FAIR VALUE OF INTEREST RATE SWAP AGREEMENT	—	315,899
Total	6,371,675	8,144,942
NET ASSETS		
Unrestricted	17,442,831	17,330,322
Temporarily restricted	188,630	1,285,704
Permanently restricted	103,164	603,164
Total	17,734,625	19,219,190
TOTAL	$ 24,106,300	$ 27,364,132

See notes to financial statements.

COLORADO SPRINGS FINE ARTS CENTER

STATEMENT OF ACTIVITIES
FOR THE TEN MONTHS ENDED JUNE 30, 2017
(with comparative totals for the year ended August 31, 2016)

	Ten Months Ended June 30, 2017				Year Ended
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	August 31, 2016 Total
SUPPORT AND REVENUE					
Program revenue	$ 1,459,770	$ —	$ —	$ 1,459,770	$ 1,644,246
Contributions from Colorado College	1,230,592	—	—	1,230,592	—
Gifts and grants	975,777	169,393	—	1,145,170	1,414,799
Contributions from Foundation	808,830	—	—	808,830	2,134,405
Investment income	396,834	—	—	396,834	254,683
Membership dues	186,419	—	—	186,419	266,972
Gain on interest rate swap	133,399	—	—	133,399	119,812
Events	118,437	—	—	118,437	366,252
Gifts of art	105,000	—	—	105,000	448,525
Auxiliary activities	82,793	—	—	82,793	360,704
Gift shop sales (loss), net	(8,027)	—	—	(8,027)	7,086
Net assets released from restrictions:					
Transferred to Foundation	500,000	—	(500,000)	—	—
Satisfaction of purpose restrictions	112,492	(112,492)	—	—	—
Satisfaction of time restrictions	1,153,975	(1,153,975)	—	—	—
Total	7,256,291	(1,097,074)	(500,000)	5,659,217	7,017,484
EXPENSES					
Program services:					
Occupancy	2,278,543	—	—	2,278,543	2,397,020
Contributions to Foundation	1,253,050	—	—	1,253,050	—
Performing arts	1,205,391	—	—	1,205,391	1,104,772
Museum	355,111	—	—	355,111	472,481
Bemis Art School	320,183	—	—	320,183	406,125
Purchase of art objects	130,000	—	—	130,000	7,960
Events	109,857	—	—	109,857	267,568
Acquisitions – gifts of art	105,000	—	—	105,000	448,525
Support services:					
Management and general	506,006	—	—	506,006	669,736
Fund raising	403,589	—	—	403,589	383,862
Communications	374,288	—	—	374,288	465,662
Premises	76,028	—	—	76,028	76,154
Auxiliary	20,123	—	—	20,123	160,486
Financing	6,613	—	—	6,613	10,785
Total	7,143,782	—	—	7,143,782	6,871,136
CHANGE IN NET ASSETS	112,509	(1,097,074)	(500,000)	(1,484,565)	146,348
NET ASSETS, Beginning of year	17,330,322	1,285,704	603,164	19,219,190	19,072,842
NET ASSETS, End of year	$ 17,442,831	$ 188,630	$ 103,164	$ 17,734,625	$ 19,219,190

See notes to financial statements.

COLORADO SPRINGS FINE ARTS CENTER

STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2017
(with comparative totals for the year ended August 31, 2016)

	Ten Months Ended June 30, 2017	Year Ended August 31, 2016
OPERATING ACTIVITIES		
Change in net assets	$ (1,484,565)	$ 146,348
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized investment gains	(300,226)	(112,846)
Depreciation and amortization	1,100,134	1,331,138
Forgiveness of note payable to Foundation	—	(250,000)
Gain on interest rate swap	(133,399)	(119,812)
Contributions restricted for long-term purposes	(10,723)	(1,241,360)
Accession of art for collection	130,000	7,960
Changes in operating assets and liabilities:		
Accounts receivable	(2,113)	4,429
Pledges receivable, net	998,609	60,743
Prepaid expenses and other assets	185,443	(83,238)
Accounts payable and accrued expenses	(312,996)	(12,956)
Deferred revenue	19,009	(107,679)
Interest rate swap agreement	(182,500)	—
Net cash provided by (used in) operating activities	6,673	(377,273)
INVESTING ACTIVITIES		
Purchases of property and equipment	(241,567)	(117,411)
Purchases of investments	(1,539,452)	(1,715,069)
Proceeds from sales of investments	7,081,043	3,015,842
Purchases of art objects	(130,000)	(7,960)
Net cash provided by investing activities	5,170,024	1,175,402
FINANCING ACTIVITIES		
Payments on bonds payable	(930,000)	(1,190,000)
Net advances (repayments) on line of credit	(244,323)	244,323
Payments on note payable to Foundation	—	(200,000)
Collection of contributions restricted for investment in property and equipment	14,000	289,000
Net cash used in financing activities	(1,160,323)	(856,677)
NET DECREASE IN CASH AND CASH EQUIVALENTS	4,016,374	(58,548)
CASH AND CASH EQUIVALENTS, Beginning of year	59,565	118,113
CASH AND CASH EQUIVALENTS, End of year	$ 4,075,939	$ 59,565

(Continued)

COLORADO SPRINGS FINE ARTS CENTER

STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2017
(with comparative totals for the year ended August 31, 2016)

	Ten Months Ended June 30, 2017	Year Ended August 31, 2016
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 106,593	$ 186,583

Cash and cash equivalents is included in the accompanying balance sheets under the following captions:

Cash and cash equivalents	$ 53,283	$ 59,565
Cash restricted for debt service	4,022,656	—
Total	$ 4,075,939	$ 59,565

(Concluded)

See 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, 2016, 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 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.

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 uncollectable accounts is recorded as of June 30, 2017 and August 31, 2016 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 2017). 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, ticket sales and other items 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, 2014 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.

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 the ten months ended June 30, 2017 and the year ended August 31, 2016.

Condensed Balance Sheet

	Ten Months Ended June 30, 2017	**Year Ended August 31, 2016**
ASSETS		
Investments, at fair value	$ 15,531,514	$ 13,909,724
Pledges receivable	3,223,389	490,000
Total	18,754,903	14,399,724
LIABILITIES		
Accounts payable	12,651	
Due to the Fine Arts Center	—	765,000
Total	12,651	765,000
NET ASSETS		
Temporarily restricted	10,632,801	10,101,711
Permanently restricted	8,109,451	3,533,013
Total	18,742,252	13,634,724
TOTAL LIABILITIES AND NET ASSETS	$ 18,754,903	$ 14,399,724

Condensed Statement of Activities

	Ten Months Ended June 30, 2017 Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Year Ended August 31, 2016 Total
REVENUE					
Contributions	$ —	$ 30,000	$ 3,323,388	$ 3,353,388	$ 1,315,000
Investment income	—	1,364,624	—	1,364,624	770,107
Contributions from Fine Arts Center	—	—	1,253,050	1,253,050	—
Net assets released from restrictions	863,534	(863,534)	—	—	—
Total	863,534	531,090	4,576,438	5,971,062	2,085,107
EXPENSES					
Contributions to the Fine Arts Center	808,830	—	—	808,830	2,134,405
Other	54,704	—	—	54,704	50,555
Total	863,534	—	—	863,534	2,184,960
Change in net assets	—	531,090	4,576,438	5,107,528	(99,853)
NET ASSETS, Beginning of year	—	10,101,711	3,533,013	13,634,724	13,734,577
NET ASSETS, End of year	$ —	$ 10,632,801	$ 8,109,451	$ 18,742,252	$ 13,634,724

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, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	28,875	28,875	—	—
Total	$ 5,241,365	$ 5,241,365	$ —	$ —
LIABILITIES				
Interest rate swap agreements	$ 315,899	$ —	$ —	$ 315,899

Assets measured at fair value are included in the following amounts on the balance sheet as of August 31, 2016:

Investments, at fair value	$ 717,012
Restricted investments	500,000
Investments held for debt service	4,024,353
Total	$ 5,241,365

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

Interest Rate Swap Agreements, September 1, 2015	$ (435,711)
Change in value recognized as a gain	119,812
Interest Rate Swap Agreements, August 31, 2016	(315,899)
Change in value recognized as a gain	133,399
Payment made to terminate agreement	182,500
Interest Rate Swap Agreements, June 30, 2017	$ —

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 at August 31, 2016 are held as collateral for the Fine Arts Center's line of credit (see Note 8).

Cash and 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 consists of the following:

	Ten Months Ended June 30, 2017	Year Ended August 31, 2016
Interest and dividend income	$ 96,608	$ 141,837
Realized and unrealized investment gains	300,226	112,846
Total	$ 396,834	$ 254,683

4. PLEDGES RECEIVABLE

Unconditional pledges receivable are as follows:

	June 30, 2017	August 31, 2016
Due in one year	$ 225,440	$ 461,225
Due in two to five years	—	30,000
Total	225,440	491,225
Less unamortized discount	9,470	26,869
Less allowance for uncollectible pledges	76,688	88,188
Total	139,282	376,168
Less current portion	139,282	348,175
Long-term portion	$ —	$ 27,993

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30, 2017	August 31, 2016
Buildings and improvements	$ 36,603,673	$ 36,354,107
Furniture, fixtures and equipment	2,959,036	2,945,429
Construction in progress	—	21,606
Total	39,562,709	39,321,142
Less accumulated depreciation	19,808,428	18,719,236
Total	$ 19,754,281	$ 20,601,906

Depreciation expense was $1,089,192 and $1,318,006 during the ten months ended June 30, 2017 and year ended August 31, 2016, 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 June 30, 2017 and August 31, 2016 was $18,375 and $22,125, 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.

Demand development revenue bonds payable consists of the following:

	June 30, 2017	August 31, 2016
Demand development revenue bonds payable	$ 5,835,000	$ 6,765,000
Less discount on issuance	(18,375)	(22,125)
Less bond issuance costs	(35,242)	(42,434)
Demand development revenue bonds payable, net	5,781,383	6,700,441
Less current portion	1,605,000	1,240,000
Long term portion	$ 4,176,383	$ 5,460,441

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

2018	$ 1,605,000
2019	1,350,000
2020	1,410,000
2021	1,470,000
Total	$ 5,835,000

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 was terminated during the ten months ended June 30, 2017. The Fine Arts Center recognized gains of $133,399 and $119,812 due to increases in the fair value of the interest rate swap agreement during the ten months ended June 30, 2017 and year ended August 31, 2016, respectively. The fair market value of the interest rate swap at August 31, 2016 is $(315,899), 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. During the ten months ended June 30, 2017 the Fine Arts Center paid $182,500 to terminate the swap agreement. Total interest expense on the bonds net of the interest rate swap agreements for the ten months ending June 30, 2017 was $107,307.

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 ten months ended June 30, 2017 and the year ended August 31, 2016, the Fine Arts Center purchased art objects totaling $130,000 and $7,690, respectively. In addition, during the ten months ended June 30, 2017 and the year ended August 31, 2016 the Fine Arts Center received donated works of art valued at $105,000 and $448,525, respectively, which have been recorded as revenue and an expense in the accompanying financial statements. There were no deaccessions during the ten months ended June 30, 2017 or the year ended August 31, 2016.

8. LINE OF CREDIT

The Fine Arts Center maintained a $500,000 revolving line of credit arrangement with a bank to provide for working capital as needed. The line of credit bore interest at the bank's prime rate plus .5% with a floor of 4%, was collateralized by a $500,000 certificate of deposit and was due May 15, 2017. The line of credit was fully repaid and terminated during the ten months ended June 30, 2017.

9. RESTRICTED NET ASSETS

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

	June 30, 2017	August 31, 2016
Pledges receivable for building renovations, debt payment and operating expenses	$ 139,282	$ 376,168
Art collection purchases	11,365	81,064
Pledge receivable from Foundation for the Discovery Gallery	—	765,000
Other	37,983	63,472
Total	$ 188,630	$ 1,285,704

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. GIFTS IN KIND

During the ten months ended June 30, 2017, The Colorado College provided various services utilizing its employees who were paid $213,691 and paid certain expenses totaling $461,224 on behalf of the Fine Arts Center. Total contribution revenue of $674,915 was recognized within gifts and grants in the accompanying statement of activities. The following schedule summarizes expenses reported in the accompanying financial statements during the ten months ended June 30, 2017:

Program Services:	
Museum	$ 189,518
Support Services:	
Premises	470,565
Management and general	1,702
Fund raising	13,130
Total	$ 674,915

During the ten months ended June 30, 2017 and the year ended August 31, 2016, 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 appropriate criteria described above.

11. 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 ten months ended June 30, 2017 and year ended August 31, 2016. As of June 30, 2017, the Plan was frozen and no longer allows contributions.

12. 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 June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,262)	$ 3,627	$ 103,164	$ 103,529

Changes in Endowment Net Assets for the ten months ended June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	$ (35,007)	$ 4,319	$ 603,164	$ 572,476
Net appreciation (realized and unrealized)	38	—	—	38
Amounts transferred to the Foundation	31,707	—	(500,000)	(468,293)
Amounts appropriated for expenditure	—	(692)	—	(692)
Endowment net assets, end of year	$ (3,262)	$ 3,627	$ 103,164	$ 103,529

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	$ (35,007)	$ 4,319	$ 603,164	$ 572,476

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	—	(944)	—	(944)
Endowment net assets, end of year	$ (35,007)	$ 4,319	$ 603,164	$ 572,476

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 $3,262 and $35,007 as of June 30, 2017 and August 31, 2016, 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.

13. CONCENTRATIONS OF CREDIT RISK

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.

14. CONCENTRATION OF REVENUE

During the ten months ended June 30, 2017, the Fine Arts Center received approximately 34% of its revenues from The Colorado College.

15. 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. The transfer will occur over a period ending on June 30, 2020. Beginning July, 1, 2017, operations are referred to as the Continuing FAC Arts Activities and are operated under the name The Colorado Springs Fine Arts Center at Colorado College (CSFAC at CC) The primary provisions of the agreement are as follows:

- The mission of CSFAC at 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 at 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 at CC mission. Programming of the CSFAC at 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 at CC will be a resource for College students and faculty and further the mission of the College, while not substantially altering the role of the CSFAC at 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 assumed the obligation to make all payments required on the Fine Arts Center's bonds payable 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 was in place from September 1, 2016 through June 30, 2017. Under this agreement, Dale Street Properties, LLC (DSP), a wholly owned subsidiary of CC, managed and operated 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 funded any operating and capital expenditure deficits.

- A Lease Agreement is in place for the period July 1, 2017 through June 30, 2020 under which DSP will lease all assets of the Fine Arts Center including the fine arts collection for $1,000 per year. Use of the assets under the Lease Agreement will be under the name CSFAC at 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 and CC's designated endowment fund of $20,000,000.

- The assets of the Foundation are excluded from the transfer of assets to CC.

Effective July 1, 2017, the Fine Arts Center, DSP and CC entered into a Bill of Sale, Assignment and Assumption Agreement which provides for the transfer all inventory held for consumption, various vendor agreements and Small Endowment Funds to DSP. Additionally, the Fine Arts Center will make all mandatory sinking fund payments to redeem the bonds payable no later than July 3, 2017 and CC will fund any deficiency between the sinking fund payments and the actual repayment of bonds.

COLORADO SPRINGS FINE ARTS CENTER

Supplemental Consolidating Information

COLORADO SPRINGS FINE ARTS CENTER

CONSOLIDATING BALANCE SHEET
JUNE 30, 2017

	Colorado Springs Fine Arts Center	Colorado Springs Fine Arts Center Foundation	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS				
Cash	$ 53,283	$ —	$ —	$ 53,283
Cash restricted for debt service	4,022,656			4,022,656
Accounts receivable	25,037	—	—	25,037
Current portion of pledges receivable, net	139,282	318,821	(18,821)	439,282
Prepaid expenses and other assets	111,761	—	—	111,761
Total	4,352,019	318,821	(18,821)	4,652,019
PLEDGES RECEIVABLE, NET	—	2,904,568	—	2,904,568
INVESTMENTS, AT FAIR VALUE	—	15,531,514	—	15,531,514
PROPERTY AND EQUIPMENT, NET	19,754,281	—	—	19,754,281
ART COLLECTION	—	—	—	—
TOTAL	$ 24,106,300	$ 18,754,903	$ (18,821)	$ 42,842,382
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 16,793	$ 12,651	$ —	$ 29,444
Accrued expenses	115,644	—	(18,821)	96,823
Deferred revenue	457,855	—	—	457,855
Current portion of demand development revenue bonds payable	1,605,000	—	—	1,605,000
Total	2,195,292	12,651	(18,821)	2,189,122
DEMAND DEVELOPMENT REVENUE BONDS PAYABLE, NET	4,176,383	—	—	4,176,383
Total	6,371,675	12,651	(18,821)	6,365,505
NET ASSETS				
Unrestricted	17,442,831	—	—	17,442,831
Temporarily restricted	188,630	10,632,801	—	10,821,431
Permanently restricted	103,164	8,109,451	—	8,212,615
Total	17,734,625	18,742,252	—	36,476,877
TOTAL	$ 24,106,300	$ 18,754,903	$ (18,821)	$ 42,842,382

COLORADO SPRINGS FINE ARTS CENTER

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE TEN MONTHS ENDED JUNE 30, 2017

	Colorado Springs Fine Arts Center	Colorado Springs Fine Arts Center Foundation	Eliminations	Consolidated Total
SUPPORT AND REVENUE				
Gifts and grants	$ 1,145,170	$ 3,353,388	$ —	$ 4,498,558
Program revenue	1,459,770	—	—	1,459,770
Contributions from Colorado College	1,230,592	—	—	1,230,592
Investment income	396,834	1,364,624	—	1,761,458
Gifts of art	105,000	—	—	105,000
Events	118,437	—	—	118,437
Auxiliary activities	82,793	—	—	82,793
Membership dues	186,419	—	—	186,419
Gain on interest rate swap	133,399	—	—	133,399
Gift shop sales, net	(8,027)	—	—	(8,027)
Contributions from Foundation	808,830	—	(808,830)	—
Contribution from Fine Arts Center	—	1,253,050	(1,253,050)	—
Total	5,659,217	5,971,062	(2,061,880)	9,568,399
EXPENSES				
Program services:				
Occupancy	2,278,543	—	—	2,278,543
Contributions to Foundation	1,253,050	—	(1,253,050)	—
Performing arts	1,205,391	—	—	1,205,391
Museum	355,111	—	—	355,111
Acquisitions – gifts of art	105,000	—	—	105,000
Bemis Art School	320,183	—	—	320,183
Events	109,857	—	—	109,857
Purchase of art objects	130,000	—	—	130,000
Contributions to Fine Arts Center	—	808,830	(808,830)	—
Support services:				
Management and general	506,006	54,704	—	560,710
Fund raising	403,589	—	—	403,589
Communications	374,288	—	—	374,288
Premises	76,028	—	—	76,028
Auxiliary	20,123	—	—	20,123
Financing	6,613	—	—	6,613
Total	7,143,782	863,534	(2,061,880)	5,945,436
CHANGE IN NET ASSETS	$ (1,484,565)	$ 5,107,528	$ —	$ 3,622,963