

**THE FLAGLER AUDITORIUM
GOVERNING BOARD, INC.
PALM COAST, FLORIDA**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2016 AND 2015

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Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Flagler Auditorium Governing Board, Inc.
Palm Coast, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of The Flagler Auditorium Governing Board, Inc. (Governing Board), component unit of Flagler County District School Board, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Governing Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governing Board as of June 30, 2016 and 2015, and the respective changes in financial position, and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of the Governing Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Governing Board's internal control over financial reporting and compliance.



September 15, 2016

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of The Flagler Auditorium Governing Board, Inc. (hereinafter referred to as the "Governing Board"), we offer the readers of these basic financial statements this narrative overview and analysis of the Governing Board's financial activities for the fiscal year that ended on June 30, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Governing Board's financial statements, which follow this information.

Financial Highlights

- The Governing Board's overall combined assets totaled \$711,307 at the close of the 2016 fiscal year compared to \$622,025 last year. Total assets exceeded liabilities by \$698,128 (*combined net position*) compared with \$611,529 one year earlier.
- The Governing Board's combined net position increased by \$86,599 in 2016, compared to an increase of \$47,079 in 2015. Amounts invested in net capital assets and not available for spending totaled \$3,500 at the end of 2016. Net position temporarily restricted for expendable uses totaled \$27,000 at year end, which consists of restricted community support donations. Unrestricted net position increased by \$83,099 in 2016 to a total of \$667,628, compared to \$584,529, one year earlier, all of which represents unrestricted and internally designated amounts that may be used to meet the Governing Board's ongoing obligations for its program activities.
- Amounts in unrestricted net position include \$382,422, which is designated by the board for capital additions, and \$24,333 which is designated by the board for use of state designated art license plate funds. The Governing Board increased its discretionary designation of other restricted funds by \$37,204, to a total of \$382,422, to be used for capital matching purposes for State of Florida Cultural Facility Grants. This grant qualification requires facilities to match the request amount with non-state funds, part of which may be in cash-on-hand and part of which may be in qualifying expenditures. In 2016, the Auditorium was awarded one such grant of \$500,000 to be expended on capital improvements in the fiscal year 2016-17, and has applied for a second grant for the fiscal year 2017-18.
- The Governing Board generated gross performance, advertising and concession related revenues totaling \$567,553 in 2016, which was approximately 5% above the \$540,512 generated in 2015. Direct production costs consisting of producers, artists, contractors, advertising and concessions expenses totaled \$546,884, compared to \$483,572 one year earlier. Other community support, grants and fundraising activities produced net revenues of \$106,663 and \$225,045 during 2016 and 2015, respectively.
- The Auditorium receives substantial support from the community in the form of volunteer hours donated for services such as Board Committees, ushering, concession operation, and general administrative work. The Auditorium also receives donated services from the Flagler County School Board related to the staffing and use of the facility for community use of the facility. These costs of these services are not recorded in the financial statements.

Overview of the Financial Statements

The Governing Board presents its financial statements for the fiscal year ended June 30, 2016, which include for comparative purposes the fiscal year ended June 30, 2015, certain accounts of which have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. The Governing Board is a direct support organization and a component unit of the Flagler County District School Board (a governmental agency). It also possesses the necessary characteristics of a governmental organization since the potential for unilateral dissolution with the reversion of its net position to the School District exists pursuant to Section 1001.453(1)(a)(1), Florida Statutes. The Governing Board accounts for its transactions in accordance with the pronouncements issued by the Governmental Accounting Standards Board (GASB). The Governing Board is considered a Business-Type Activity under the provisions of GASB 34 and 35.

The Governing Board's financial statements are comprised of two parts: 1) management's discussion and analysis, and 2) the basic financial statements, including notes to the financial statements.

The objective of the Management's Discussion and Analysis is to focus on current activities, resulting changes and currently known facts to provide the reader with an overall summary of the accompanying financial statements. It should be read in conjunction with the basic financial statements and the accompanying notes.

The financial statements include the following:

- Statements of Net Position
- Statements of Activities
- Statements of Cash Flows
- Notes to Financial Statements

The financial statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the Governing Board's overall financial status, including its business-type activities. These statements report information about the Governing Board using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Governing Board's assets and liabilities, both financial and capital, and short-term and long-term debt (when applicable) are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported.

The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Governing Board's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Statements of Net Position

As noted previously, net position is the sum of assets (both financial and tangible) minus all current liabilities and short and long-term debt obligations. Net position is a valuable measure of creditworthiness and financial health since the calculation includes both financial obligations and the capacity to service those obligations. This year, the Governing Board's combined total assets exceeded liabilities (net position) by \$698,128 at the end of 2016, compared to \$611,529 at the end of 2015.

The net position of the Governing Board at June 30, 2016 and 2015 is summarized as follows:

Net Position				
June 30, 2016 and 2015				
	<u>2016</u>	<u>2015</u>	Increase <u>(Decrease)</u>	Percent <u>Change</u>
Assets:				
Current and other assets	\$ 266,480	433,903	(167,423)	-38.6%
Investments	441,327	188,122	253,205	134.6%
Capital assets	<u>3,500</u>	<u>-</u>	<u>3,500</u>	100.0%
Total assets	<u>711,307</u>	<u>622,025</u>	<u>89,282</u>	14.4%
Liabilities:				
Current liabilities	<u>13,179</u>	<u>10,496</u>	<u>2,683</u>	25.6%
Net Position:				
Invested in capital assets	3,500	-	3,500	100.0%
Restricted:				
Expendable	27,000	27,000	-	0.0%
Unrestricted	<u>667,628</u>	<u>584,529</u>	<u>83,099</u>	14.2%
Total net position	<u>\$ 698,128</u>	<u>611,529</u>	<u>86,599</u>	14.2%

Total assets increased over last year by \$89,282 to a total of \$711,307, or an increase of 14.5% over last year's \$622,025. Total assets consist primarily of cash and cash equivalents, which make up 35% of total assets, short-term investments which include certificates of deposit make up 62%, accounts receivable which make up 3%.

The Governing Board's total liabilities consist of accounts payable and accrued liabilities for current period operating activities of \$3,454 at the end of 2016, compared to \$719 at the end of 2015. Unearned ticket and advertising revenues received in advance totaled \$9,725 at the end of 2016, compared to \$9,777 at the end of 2015.

The portion of net position invested in capital assets is \$3,500 at the end of 2016, compared to zero at the end of 2015. Capital additions are generally donated to the Flagler School Board when they are completed and placed in service. Amounts temporarily restricted for donor designated uses remained unchanged in 2016 and totaled \$27,000. Unrestricted net position increased by \$83,099 during 2016 and totaled \$667,628, at year end of 2016, compared to \$584,529 at the end of 2015.

Statements of Activities

While the statement of net position shows a snapshot of the Governing Board's financial position at the end of the fiscal year, the statement of activities provides answers as to the nature and sources of those changes that occurred during the year. During 2016, the Governing Board's total operating revenues increased by \$42,740 to a total of \$671,054, compared to \$628,314 earned in the prior year. This year's increase was primarily due to an increase in performance ticket sales as well as Concessions. During 2016, approximately 84.5% of the Governing Board's revenue was derived from performance tickets, showbills, concessions and auditorium rentals (\$567,553), compared with 86% (\$540,512) in the previous year. At the same time, the Governing Board's combined revenues from local community patronage and support, state and local grants, and fundraising events totaled \$131,501 in 2016, compared to \$237,802 in 2015.

The Governing Board's spending on entertainment productions, advertising and concessions increased in 2016 and totaled \$546,884, compared to \$483,572 in 2015. Total amounts paid for student scholarships were \$17,390 and \$15,312, respectively for years ended 2016 and 2015.

The Governing Board’s fundraising activities included the annual Holiday Extravaganza and Gala events, which produced fundraising revenues totaling \$35,422 in 2016, compared to \$23,300 one year earlier. Overall fundraising expenses increased from \$12,757 in 2015 to \$24,838 in 2016. The Board’s general and administrative costs increased from \$23,093 in 2015 to \$29,388 in 2016, largely due to increased contributions to the School Board for certain staffing costs.

Overall, The Governing Board’s net position increased by \$86,599 in 2016, compared to an increase of \$47,079 one year earlier.

The following is a summary of changes in net position for the fiscal year:

Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Performances, concessions, showbills and advertising	\$ 553,325	528,437	24,888	4.7%
Community support	68,079	64,502	3,577	5.5%
Fundraising	35,422	23,300	12,122	52.0%
Auditorium and equipment rentals	<u>14,228</u>	<u>12,075</u>	<u>2,153</u>	17.8%
Total operating revenues	<u>671,054</u>	<u>628,314</u>	<u>42,740</u>	6.8%
Operating Expenses:				
Program services	564,274	498,884	65,390	13.1%
Support services	<u>54,226</u>	<u>35,850</u>	<u>18,376</u>	51.3%
Total operating expenses	<u>618,500</u>	<u>534,734</u>	<u>83,766</u>	15.7%
Operating income	52,554	93,580	(41,026)	-43.8%
Nonoperating income (expense):				
Investment income	6,045	3,099	2,946	95.1%
State and local grants	28,000	150,000	(122,000)	-81.3%
Contributions to School District	<u>-</u>	<u>(199,600)</u>	<u>199,600</u>	-100.0%
Total nonoperating income (expense)	<u>34,045</u>	<u>(46,501)</u>	<u>80,546</u>	-173.2%
Increase in net position	86,599	47,079	39,520	83.9%
Net position - beginning of year	<u>611,529</u>	<u>564,450</u>	<u>47,079</u>	8.3%
Net position - end of year	<u>\$ 698,128</u>	<u>611,529</u>	<u>86,599</u>	14.2%

Statements of Cash Flows

Net cash generated from operating activities amounted to \$56,823 during 2016, compared to net cash provided by operating activities of \$96,460 in the previous year. This represents a decrease of \$40,537 in cash flows from operating activities in 2015, which was the net result of an increase in net performance settlements received during the current year.

Net cash remaining after capital and related financing activities totaled \$6,500 during the year ended June 30, 2016, comparing to net cash of \$24,818 used in capital and related financing activities during the year ended June 30, 2015. The Governing Board’s state and local grant receipts totaled \$10,000 in 2016. The net book value of capital assets contributed to the District totaled \$3,500 and \$184,818 during 2016 and 2015, respectively.

Net cash provided by investing activities amounted to \$2,840 in 2016, compared to \$1,063 in 2015.

Capital Assets

Capital Assets. During 2016, the Governing Board acquired assets of \$3,500. In the year before, the combined balance of capital assets totaling \$199,600 were contributed to the Flagler County School District. The Governing Board’s investment in capital assets, net of depreciation, for all activities is reflected in the following schedule.

Capital Assets				
Year Ended June 30, 2016				
	Balance			Balance
	<u>07/01/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/16</u>
Capital Assets:				
Construction in progress.....	\$ <u> -</u>	<u> 3,500</u>	<u> -</u>	\$ <u> 3,500</u>

Amounts capitalized in 2016 represent partial payments to a professional architect for preliminary design fees associated with anticipated future auditorium improvements. These costs, and all other capital costs incurred with the project, will be accumulated and conveyed to the Flagler County School District when the project is completed and the improved assets are placed in service.

Economic Factors That Will Affect The Future

Attendance of the Governing Board productions and charitable contributions is affected by various economic factors, such as the general state of the economy, the health of the stock market and prospective donors' perception of the benefiting organization. The Governing Board has enjoyed a very positive reputation in the communities it serves and continues to see steady growth in charitable giving as well as increase in attendance.

Some of the major factors considered by the Governing Board in the process of predicting future economic factors are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Flagler County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Information Database Application (FREIDA). This agency estimates a countywide Civilian Labor Force of 44,673 at the end of June 2016, compared with 42,245 at the end of June 2015. The number of unemployed workers dropped from 2,741 (or 6.3%) at the end of June 2015, to 2,428 (or 5.4%) at the end of June 2016.
- Inflationary trends for Flagler County compare favorably with those trends experienced at the state and national levels.

Requests for Information

This financial report is designed to provide our donors, grantors, recipients, and creditors with a general overview of the Governing Board's finances and to demonstrate the Governing Board's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Executive Director, The Flagler Auditorium Governing Board, Inc., P. O. Box 755, Bunnell, Florida 32110-0755.

Financial Statements

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STATEMENTS OF NET POSITION

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

	2016	2015
Assets:		
Current Assets:		
Cash and cash equivalents.....	\$ 213,620	397,457
Restricted cash and cash equivalents.....	27,000	27,000
Accounts receivable (net).....	20,900	1,564
Inventories.....	3,443	1,683
Prepaid expenses.....	<u>1,517</u>	<u>6,199</u>
Total current assets	266,480	433,903
Noncurrent Assets:		
Investments.....	441,327	188,122
Capital assets (net).....	<u>3,500</u>	<u>-</u>
Total assets	<u>\$ 711,307</u>	<u>622,025</u>
Liabilities and Net Position:		
Current Liabilities:		
Accounts payable and accrued liabilities.....	\$ 3,454	719
Customer deposits received in advance.....	<u>9,725</u>	<u>9,777</u>
Total current liabilities	<u>13,179</u>	<u>10,496</u>
Net Position:		
Invested in capital assets.....	3,500	-
Restricted:		
Nonexpendable.....	-	-
Expendable.....	27,000	27,000
Unrestricted.....	<u>667,628</u>	<u>584,529</u>
Total net position.....	<u>698,128</u>	<u>611,529</u>
Total liabilities and net position.....	<u>\$ 711,307</u>	<u>622,025</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

	2016	2015
Operating Revenues:		
Performances.....	\$ 486,710	470,465
Showbills and advertising.....	23,475	25,650
Concessions.....	43,140	32,322
Community patronage and support.....	68,079	64,502
Fundraising.....	35,422	23,300
Auditorium and equipment rentals.....	<u>14,228</u>	<u>12,075</u>
Total operating revenues.....	<u>671,054</u>	<u>628,314</u>
Operating Expenses:		
Program Services:		
Productions, contractors and facilities.....	410,886	365,769
Advertising and showbill.....	107,844	99,043
Concessions.....	28,154	18,760
Scholarships and awards.....	<u>17,390</u>	<u>15,312</u>
Total program services.....	<u>564,274</u>	<u>498,884</u>
Support Services:		
General and administrative.....	29,388	23,093
Fundraising.....	<u>24,838</u>	<u>12,757</u>
Total support services.....	<u>54,226</u>	<u>35,850</u>
Total operating expenses.....	<u>618,500</u>	<u>534,734</u>
Operating income.....	52,554	93,580
Nonoperating Revenue (Expenses):		
Investment income.....	6,045	3,099
State and local grants.....	28,000	150,000
Contributions to Flagler County School District.....	<u>-</u>	<u>(199,600)</u>
Nonoperating revenue.....	<u>34,045</u>	<u>(46,501)</u>
Change in net position.....	86,599	47,079
Net Position, beginning of year.....	<u>611,529</u>	<u>564,450</u>
Net Position, end of year.....	<u>\$ 698,128</u>	<u>611,529</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

	2016	2015
Cash Flows From Operating Activities:		
Cash received from performances, advertising and concessions.....	\$ 551,937	535,980
Cash received from community patronage, support and grants.....	68,079	64,502
Cash received from fundraising.....	35,422	23,300
Cash received from auditorium and equipment rentals.....	14,228	12,075
Cash paid for productions and concessions.....	(488,869)	(453,310)
Cash paid for personal services.....	(60,624)	(34,925)
Cash paid for scholarship awards and grants.....	(17,390)	(15,312)
Cash paid for fundraising.....	(27,185)	(12,757)
Cash paid for administrative costs.....	(18,775)	(23,093)
Net cash provided by operating activities.....	<u>56,823</u>	<u>96,460</u>
Cash Flows From Capital and Related Financing Activities:		
Cash received from government grants.....	10,000	160,000
Acquisition and construction of capital assets.....	(3,500)	(184,818)
Net cash provided by (used in) capital and related financing activities.....	<u>6,500</u>	<u>(24,818)</u>
Cash Flows From Investing Activities:		
Cash received from investment maturities.....	-	105,044
Cash paid for purchase of certificates of deposit.....	(250,000)	(105,044)
Cash received from interest.....	2,840	1,063
Net cash used in investing activities.....	<u>(247,160)</u>	<u>1,063</u>
Net increase in cash and cash equivalents.....	(183,837)	72,705
Cash and Cash Equivalents - Beginning of Year.....	<u>424,457</u>	<u>351,752</u>
Cash and Cash Equivalents - End of Year.....	<u>\$ 240,620</u>	<u>424,457</u>
Reconciliation to Statement of Net Position:		
Cash and Cash Equivalents - unrestricted.....	\$ 213,620	397,457
Cash and Cash Equivalents - restricted.....	<u>27,000</u>	<u>27,000</u>
Total Cash and Cash Equivalents.....	<u>\$ 240,620</u>	<u>424,457</u>
Non-cash Capital and Related Financing Activities:		
Capital asset transfers to Flagler County School District.....	<u>\$ -</u>	<u>(199,600)</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

(Continued)

For the Years Ended June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

	2016	2015
Reconciliation of Increase in Net Assets To Net Cash Provided By Operating Activities:		
Operating income.....	\$ 52,554	93,580
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Bad debt expense.....	-	900
Changes in Assets - (Increase) Decrease In:		
Accounts receivable.....	(1,336)	(39)
Prepaid expenses.....	4,682	(4,895)
Inventories.....	(1,760)	-
Changes in Liabilities - Increase (Decrease) In:		
Accounts payable and accrued liabilities.....	2,735	(12)
Customer deposits received in advance.....	<u>(52)</u>	<u>6,926</u>
Net cash provided by operating activities.....	<u>\$ 56,823</u>	<u>96,460</u>

The accompanying notes are an integral part of the financial statements.

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Notes to the Financial Statements

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Flagler Auditorium Governing Board, Inc. (the “Governing Board”) is a direct support organization (as defined in Section 1001.453, Florida Statutes), and is considered a component unit of the Flagler County District School Board (the “School District”) for financial reporting purposes. The Governing Board was formed as an I.R.C. Section 501(c)(3) nonprofit corporation on July 26, 1991, whose objective is to promote the performing arts and community use of the Flagler Auditorium in Flagler County, Florida. It also possesses the necessary characteristics of a governmental organization since the potential for unilateral dissolution with the reversion of its net assets to the School District exists pursuant to Section 1001.453(1)(a)(1), Florida Statutes.

Basis of Presentation – As a component unit of the School District, the financial statements of the Governing Board have been prepared in accordance with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (the “GASB”) is the standard setting body for governmental accounting and financial reporting. The Governing Board has followed the financial presentation model of GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*.

Basis of Accounting and Financial Reporting – For financial reporting purposes, the Governing Board is considered a special-purpose government entity engaged exclusively in business-type activities. Accordingly, the Governing Board’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

Financial Statement Classification – The basic financial statements required for proprietary funds by GASB 34 are: a statement of net position or a balance sheet; a statement of activities; and a statement of cash flows. The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the Governing Board’s policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

Fund Accounting – To ensure observance of limitations and restrictions placed on the use of resources available to the Governing Board, the accounts of the Governing Board are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. All of the Governing Board’s financial activity is accounted for in a single business-type fund, which contains restricted and unrestricted components. The Governing Board’s Operating Account includes unrestricted and restricted resources, representing the portion of expendable and nonexpendable funds that are available for support of operations and funds available for use in accordance with specific restrictions, respectively.

Classification of Revenues - The Governing Board’s principal operating activity is in performing arts programs, education program support programs and student scholarships. Operating revenues include the primary activities of presenting performances, conducting fundraising events, soliciting and accepting

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

donor contributions and other program revenues. Non-operating revenues include investment income and earnings and contributions restricted for capital additions or endowments, when applicable. Operating expenses include all fiscal transactions related to performing arts, Governing Board management, and fundraising.

Donor Restricted Accounts – Restricted net position is cash that has been received through fundraising events, community support and grant funds that are designated for specific program funding and scholarships. Investment income, including unrealized appreciation and depreciation, is allocated to restricted accounts on a pro rata basis based on the nonexpendable account balance, when applicable. In accordance with state law, these funds are then available for expenditure when the specific restrictive donor criteria are met.

Cash and Cash Equivalents - Cash and cash equivalents represent both restricted and unrestricted cash in checking and money market accounts and include all highly liquid investments with initial maturities of three months or less. Cash deposits of the Governing Board are insured by Federal depository insurance to the extent of regulatory requirements.

Investments - Investments include certificates of deposit (bank time deposits) with initial maturities of greater than three months. Investment income consists exclusively of interest income earned.

Accounts and Pledges Receivable - The Governing Board's accounts receivable mainly consists of amounts receivable from showbill advertising and sponsorships. The Governing Board considers its receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Pledges receivables are stated at the amount management expects to collect from outstanding balances. Generally accepted accounting principles require management to provide for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Based on prior experience and on the aforementioned assessment of the current status of individual pledges, management elected not to provide for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance as management expects all pledges receivable amounts to be fully collectible.

Inventories: Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

Capital Assets – The Governing Board's operations are maintained at facilities owned and operated by the School District at no cost to the Governing Board. When applicable, capital asset acquisitions intended for direct contribution to the School District are recorded as expenditures in the Governing Board's accounting records. Similarly, the costs of ongoing construction and/or rehabilitation projects related to capital assets of the School District are accumulated until completion of construction, at which time the aggregate costs are recognized as a direct contribution to the School District in the Governing Board's accounting records.

Capital asset acquisitions are recorded at cost, if purchased. Assets are capitalized having a useful life of greater than one year and with an original cost of \$500 or greater. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets, which is generally five years. Expenditures for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

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Net Position – The Governing Board's net position is classified as follows:

- **Restricted Net Position – Expendable** - includes resources the Governing Board is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Restricted Net Position – Nonexpendable** - consists of endowment and similar type funds in which donors or outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income.
- **Unrestricted** - represents net position that is not restricted for any purpose and available for current operations.

Fair Value of Financial Instruments - The Governing Board did not hold any derivative instruments for trading purposes at June 30, 2016 and 2015, and does not invest in derivative instruments. The carrying amount of cash, receivables and payables approximates fair value.

Donated Property – Donated marketable securities and other noncash donations used to further the purposes of the Governing Board are recorded at estimated fair value at the time of donation.

In-kind Contributions - In-kind contributions represent the fair market values for goods and services provided for the Governing Board. Contributions of services are recognized only if services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing these skills, and would typically be purchased if not provided by donations. These contributions are included in the Statement of Activities under the caption labeled "in-kind contributions."

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates used in preparing these financial statements include the allocation of salary costs to different program services and support services.

Revenue Recognition – An exchange or exchange-like transaction is one in which each party receives and sacrifices something of approximate equal value. Amounts received from exchange transactions (i.e., performance ticket fees, charges for advertising, etc.) are recognized as revenue when the exchange transaction takes place.

A non-exchange transaction is one in which one party receives something of value without directly giving value in exchange. Non-exchange transactions may include, but are not limited to:

- **Gifts/donations** - Assets are recognized when all eligibility requirements are met or funds are received; whichever is first. Revenue is recognized when all eligibility requirements have been met. If gift is received prior to meeting eligibility requirements, it is recorded as deferred revenue. Eligibility requirements are conditions specified by a donor that must be met, such as time

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

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requirements, matching requirements. Purpose restrictions are not eligibility requirements and do not affect revenue recognition. Gifts received with purpose restrictions are reported as restricted until used for designated purpose or until restriction expires.

Some gifts are received with the stipulation that the resources cannot be sold, disbursed, or consumed until a specified number of years have passed or a specific event has occurred, such as endowments, term endowments, works of art and historical treasures. For these gifts, revenues are recognized when the resources are received, provided that all eligibility requirements are met. Resulting net assets are reported as restricted for as long as the restrictions or time requirements remain in effect.

- Certain grants, entitlements - Assets are recognized when all eligibility requirements are met or funds are received; whichever is first. Revenue is recognized when all eligibility requirements have been met. If grant funds are received prior to meeting eligibility requirements, they are recorded as deferred revenue. Eligibility requirements are conditions specified by the grantor that must be met, such as an eligible recipient, time requirements, matching requirements, etc. Purpose restrictions are not eligibility requirements and do not affect revenue recognition. Grants received with purpose restrictions are reported as restricted.
- Promises to give (pledges) – Amounts must be promised by a non-governmental entity – individual, business, or organization. Asset (receivable) and revenue are recognized when all eligibility requirements are met and amount is verifiable, measurable, and collection is probable (likely to occur). Endowment pledges are generally not recognized until received since the promise to not sell, disburse, or consume the asset cannot be honored until the asset has been received.

Contributions received are recorded as unrestricted or restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Investment earnings with donor restrictions are recorded in restricted net position based on the nature of the restrictions.

Employee Salaries and Benefits – Generally, all administration and management functions of the Governing Board are performed by individuals whose salaries, wages and related employee benefits are paid by the School District. During the year ended June 30, 2016 and 2015, the Governing Board agreed to reimburse the School District for a portion of the salaries, wages and related employee benefits paid by the School District in the amounts of \$53,076 and \$30,763, respectively.

The Governing Board does not recognize any pro-rata portion of liabilities for employment related benefits (i.e., employee insurance premiums, pension obligations, and other post-employment benefit obligations) of the School District.

Income Taxes - The Governing Board is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Governing Board has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

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Section 509(a) of the Internal Revenue Code; Accordingly, no provision for Federal and state income taxes has been made in the accompanying financial statements.

The Governing Board has adopted the standard for accounting for uncertain tax positions. The standard prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

The Governing Board's tax returns (Form 990 and attachments) are subject to review and examination by the Federal and State authorities. The Governing Board is not aware of any activities that would jeopardize its tax-exempt status. The Governing Board is not aware of any activities that are subject to tax on unrelated business income or excise taxes. The tax returns for the fiscal years ending 2013 to 2016 are open to examination by Federal and state authorities.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

New Accounting Standards – The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

Statement No. 72, "*Fair Value Measurement and Application*." The provisions of this statement were effective for financial statements for reporting periods beginning after June 15, 2015. The implementation of this statement had no significant effect on the financial statements.

The following Governmental Accounting Standards Board (GASB) Statements will be implemented in future financial statements, as applicable:

Statement No. 73, "*Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68*." The provisions of this statement are effective for fiscal years beginning after June 15, 2015 - except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*." The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*." The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The provisions of this statement are effective for reporting periods beginning after June 15, 2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

Statement No. 77, *“Tax Abatement Disclosures.”* The provisions of this Statement are effective for reporting periods beginning after December 15, 2015.

Statement No. 78, *“Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.”* The provisions of this Statement are effective for reporting periods beginning after December 15, 2015.

Statement No. 79, *“Certain External Investment Pools and Pool Participants.”* The provisions of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.* The provision of this Statement are effective for reporting periods beginning after June 15, 2016.

Statement No. 81, *Irrevocable Split-Interest Agreements.* The provisions of this Statement are effective for periods beginning after December 15, 2016.

Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2016 or 2017, based on the requirement of paragraph 7.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

Cash Deposits - At June 30, 2016, the carrying amount of the Governing Board’s cash deposits was \$240,620, and the bank balances were \$244,839, including brokerage money market accounts of \$2,461, all of which was covered by federal depository insurance. Included in the carrying amount of the governing Board’s cash deposits is \$300 of petty cash.

At June 30, 2015, the carrying amount of the Governing Board’s cash deposits was \$424,457, and the bank balances were \$362,508, all of which was covered by federal depository insurance. Included in the carrying amount of the Governing Board’s cash deposits is \$300 of petty cash.

Investments - Long-term investments are stated at fair value. All current period investments are limited to certificates of deposit which are valued at historical cost, including accrued interest. At June 30, 2016, the fair value of the Governing Board’s investments in certificates of deposit totaled \$444,627, all of which was covered by federal depository insurance.

At June 30, 2016, the fair value of the Governing Board’s investments in certificates of deposit totaled \$188,122, all of which was covered by federal depository insurance.

The Governing Board’s investments were limited exclusively to certificates of deposit, all of which are included in the summary of deposits above. The investment maturities of the Governing Board’s investment portfolio range from 7 months to 53 months, as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

Investment Type	Fair Value	Investment Maturities (Years)	
		Less Than 1	From 1 - 5
At June 30, 2016:			
Certificates of deposit.....	\$ 441,327	107,221	334,106
At June 30, 2015:			
Certificates of deposit.....	\$ 188,122	-	188,122

Restrictions. Certain cash deposits are classified as restricted assets because their use is restricted by applicable donor covenants.

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Governing Board has developed formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments are governed by the Governing Board's Investment Policies and related state statutes. Generally, the Governing Board limits the acquisition of investments with maturities of greater than forty-eight months, unless such investments are purchased for holding to maturity. Interest rate risk is minimized for all other investments, which are normally held for periods of less than one year. At June 30, 2016, the Governing Board had \$441,327 invested in bank certificates of deposit with an average yield of 1.71% and average maturities of 35 months.

Credit Risk – State Statutes authorize the Governing Board to invest in obligations of the U.S. Treasury and federal agency securities, along with certain pre-refunded public obligations, such as bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state. The Governing Board has no investment policy that would further limit its investment choices. During the years ended June 30, 2016 and 2015, the Governing Board did not make any qualifying investments.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. At June 30, 2016, the Governing Board's cash deposits did not exceed federally insured limits.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Public donations.....	\$ 1,250	-
Accounts receivable - ticketing	-	719
Advertising contracts and other.....	1,650	845
Due from other governments.....	<u>18,000</u>	<u>-</u>
	20,900	1,564
Less allowance for uncollectible accounts.....	<u>-</u>	<u>-</u>
Accounts receivable, net.....	<u>\$ 20,900</u>	<u>1,564</u>

NOTE 4 – CAPITAL ASSETS

Property and equipment as of June 30, 2016 and 2015, consisted of the following:

	<u>Balance</u> <u>07/01/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/16</u>
Capital Assets:				
Construction in progress.....	<u>\$ -</u>	<u>3,500</u>	<u>-</u>	<u>3,500</u>

	<u>Balance</u> <u>07/01/14</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/15</u>
Capital Assets:				
Construction in progress.....	<u>\$ 14,782</u>	<u>184,818</u>	<u>(199,600)</u>	<u>-</u>

Depreciation expense for the years ended June 30, 2016 and 2015 totaled \$-0- and \$-0-, respectively.

During the years ended June 30, 2016 and 2015, capital asset acquisitions, including construction costs and rehabilitation projects related to capital assets of the School District, transferred to the School District totaled \$-0- and \$199,600, respectively. At June 30, 2016, the Governing Board incurred preliminary professional engineering and architectural costs totaling \$3,500 associated with the planning of a future capital expansion program.

NOTE 5 – NET POSITION RESTRICTIONS AND DESIGNATIONS

Restricted – Nonexpendable – The Governing Board did not have any balances that included permanent, nonexpendable, donor-imposed corpus restrictions at June 30, 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

Restricted - Expendable – A summary of net changes in net position that included restricted, but expendable donor-imposed or board-imposed restrictions consisted of the following at June 30, 2016 and 2015:

Year ended June 30, 2016	Balances <u>07/01/15</u>	<u>Contributions</u>	<u>Uses</u>	Balances <u>06/30/16</u>
R. and J. Hamilton Capital Fund.....	\$ 22,000	-	-	22,000
C. W. Elliott Capital Fund.....	5,000	-	-	5,000
Total.....	<u>\$ 27,000</u>	<u>-</u>	<u>-</u>	<u>27,000</u>

Year ended June 30, 2015	Balances <u>07/01/14</u>	<u>Contributions</u>	<u>Uses</u>	Balances <u>06/30/15</u>
R. and J. Hamilton Capital Fund.....	\$ 22,000	-	-	22,000
C. W. Elliott Capital Fund.....	5,000	-	-	5,000
Total.....	<u>\$ 27,000</u>	<u>-</u>	<u>-</u>	<u>27,000</u>

Unrestricted - Designated – A summary of net changes in net position that included unrestricted, but discretionary board-imposed designations consisted of the following at June 30, 2016 and 2015:

Year ended June 30, 2016	Balances <u>07/01/15</u>	<u>Contributions</u>	<u>Uses</u>	Balances <u>06/30/16</u>
Internally designated Capital Fund.....	\$ 345,218	37,204	-	382,422
Arts Education grants.....	21,677	2,688	(32)	24,333
Total.....	<u>\$ 366,895</u>	<u>39,892</u>	<u>(32)</u>	<u>406,755</u>

Year ended June 30, 2015	Balances <u>07/01/14</u>	<u>Contributions</u>	<u>Uses</u>	Balances <u>06/30/15</u>
Internally designated Capital Fund.....	\$ 360,000	34,818	(49,600)	345,218
Arts Education grants.....	20,158	2,175	(656)	21,677
Total.....	<u>\$ 380,158</u>	<u>36,993</u>	<u>(50,256)</u>	<u>366,895</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2016 and 2015

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Palm Coast, Florida

NOTE 6 – RELATED PARTY TRANSACTIONS

The Governing Board is a legally established direct-support organization and component unit of the Flagler County District School Board, whose objective is to promote the performing arts and community use of The Flagler Auditorium in Flagler County, Florida. To meet this objective, the Governing Board is permitted to use the Flagler Auditorium, certain other property, facilities, and personal services of the District, provided the rules of the School Board are followed. As a result, various administrative and internal service functions are provided to the Governing Board throughout the year by the District without remuneration. The Governing Board has elected to not include the value of these donated materials and services, which are significant to the operations of the Governing Board, in the accompanying financial statements.

Throughout the year, the School District utilizes the Flagler Auditorium for school related functions and activities. In conjunction with those activities, the Governing Board collects school-related admission fees and rentals and makes payments for activity related expenses on behalf of the School District. Amounts collected by the Governing Board on behalf of the School District in the form of auditorium admission fees, rentals and concessions during the fiscal years ended June 30, 2016 and 2015, totaled \$104,268 and \$103,315, respectively. Reimbursements collected by the Governing Board for the payment of performance related expenses and other expense reimbursements totaled \$36,557 and \$35,922, respectively, for the years ended June 30, 2016 and 2015. The resultant amount of settlements paid to the School District by the Governing Board during the fiscal years ended June 30, 2016 and 2015, totaled \$68,237 and \$67,393, respectively.

During the years ended June 30, 2016 and 2015, the Governing Board reimbursed the School District for a portion of the salaries and related employee benefits for the Executive Director and Public Relations and Marketing representative in the amount of \$53,076 and \$30,763, respectively.

NOTE 7 – COMMITMENTS

The Governing Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural causes for which the Governing Board carries commercial insurance. The Governing Board has incurred no losses in excess of coverage in the last three years.

NOTE 8 – SUBSEQUENT EVENTS

Performance Productions and Contracts – Subsequent to year end, the Governing Board entered into formal contract commitments with various agents and performers totaling approximately \$360,650 for productions that will occur in the next fiscal year.

In preparing these financial statements, the Governing Board has evaluated events and transactions for potential recognition or disclosure through September 15, 2015, the date the financial statements were available to be issued.

Compliance Reports

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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors

The Flagler Auditorium Governing Board, Inc.
Palm Coast, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Flagler Auditorium Governing Board, Inc. (a nonprofit organization hereinafter referred to as the “Governing Board”), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Governing Board’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governing Board’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Governing Board’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
The Flagler Auditorium Governing Board, Inc.
Palm Coast, Florida
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Governing Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-1.

Governing Board's Response to Finding

The Governing Board's response to the finding identified in our audit is described in the accompanying schedule of findings. The Governing Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in black ink that reads "BMC CPAs". The letters are stylized and slanted.

September 15, 2016

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2016

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

There were no prior year findings and responses included in the prior year's Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards* in fiscal year 2015 that require a summary of status or corrective actions.

Internal Control Over Financial Reporting

2016-1 "On-Behalf" Payments of Salaries and Benefits

During the current and previous years, the Flagler Auditorium Governing Board, Inc. (Governing Board) has not recognized any revenues or expenses for on-behalf payments for salaries and fringe benefits made by the Flagler County District School Board (School Board) for shared personal services rendered to the Governing Board. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity) to a third-party recipient for the employees of another, legally separate entity (the employer entity). They include payments made by governmental entities on behalf of nongovernmental entities. Employer governments are required to recognize revenue and expenditures or expenses for on-behalf salary or benefit payments. For employer governments that are not legally responsible for the payments, expenditures or expenses should equal the amounts recognized as revenue.

Annual determinations of pro-rata amounts of on-behalf payments for salaries and fringe benefits between the Auditorium Board and School Board have not been made with respect to two School Board employees who are employed exclusively to manage and maintain the Auditorium facilities and to manage and perform all related school activities associated with the auditorium facility, which is the sole and exclusive property of the School Board. As a result, the portion of salaries and fringe benefits attributable to Governing Board activities have not been calculated or recognized by the Governing Board.

Recommendation: We recommend that the Governing Board should (1) identify all School Board employees whose services are shared with the Governing Board, (2) obtain verification of the total of all salaries and related fringe benefits for each employee, (3) confirm directly with the School Board the pro-rata portion of each employee's time that is allocable to the Governing Board, and (4) recognize the actual pro-rata value of the payments as expenses, which should also equal the amounts recognized as revenue, in the Governing Board's financial statements.

Auditee Response: *The Governing Board has, from time to time, made inquiries of the School Board concerning their desire to allocate the pro-rata amounts of on-behalf salary and benefit payments made for employees who have shared auditorium responsibilities. They have always determined in the past that the pro-rata share of School Board employee salaries and benefits allocable exclusively to the Governing Board's operations is not significant. Furthermore, they have also indicated that since the operations of the Governing Board are recognized as a component unit of the School Board, the separate accounting for the pro-rata share of these costs would create a partial duplication of these expenses in the combined School Board financial statements. For that reason, no pro-rata amounts have been separately recognized by the Governing Board in their financial statements.*

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