NATIONAL FOUNDATION FOR
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES
D/B/A NATIONAL YOUNGARTS FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

MBAF

MORRISON BROWN ARGIZ & FARRA, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

**NATIONAL FOUNDATION FOR
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES
D/B/A NATIONAL YOUNGARTS FOUNDATION**

TABLE OF CONTENTS

MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
National Foundation for Advancement in the Arts, Inc. and Subsidiaries
d/b/a National YoungArts Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Foundation for Advancement in the Arts, Inc. and Subsidiaries d/b/a National YoungArts Foundation (a non-profit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Foundation for Advancement in the Arts, Inc. and Subsidiaries d/b/a National YoungArts Foundation as of June 30, 2016 and 2015, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Morrison, Brown, Argiz & Farra

Miami, Florida
November 16, 2016

NATIONAL FOUNDATION FOR
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES
D/B/A NATIONAL YOUNGARTS FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30,

ASSETS	**2016**	**2015**
Cash and cash equivalents	$ 239,421	$ 115,685
Restricted cash	65,000	149,800
Pledges and other receivables, net	301,819	106,530
Prepaid expenses and other assets	248,196	288,676
Interest in charitable remainder unitrust	103,349	107,648
Investments	42,117,985	43,898,508
Artwork	2,000,000	2,000,000
Property and equipment, net	25,901,520	24,575,884
TOTAL ASSETS	**$ 70,977,290**	**$ 71,242,731**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable, accrued expenses and other liabilities	$ 878,737	$ 1,134,750
Artwork pledged to third party	2,000,000	2,000,000
Line of credit	523,530	530,000
TOTAL LIABILITIES	3,402,267	3,664,750
COMMITMENTS (NOTE 13)		
NET ASSETS		
Unrestricted:		
Undesignated	25,349,852	23,426,980
Board designated	2,266,908	2,207,749
Total Unrestricted	27,616,760	25,634,729
Temporarily restricted	28,140,819	30,121,509
Permanently restricted	11,817,444	11,821,743
TOTAL NET ASSETS	67,575,023	67,577,981
TOTAL LIABILITIES AND NET ASSETS	**$ 70,977,290**	**$ 71,242,731**

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL FOUNDATION FOR
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES
D/B/A NATIONAL YOUNGARTS FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT:								
Contributions	$ 10,000,898	$ 60,000	$ -	$ 10,060,898	$ 15,162,439	$ 144,800	$ -	$ 15,307,239
Government grants	193,237	-	-	193,237	261,904	-	-	261,904
In-kind contributions	1,478,096	-	-	1,478,096	2,901,170	-	-	2,901,170
TOTAL SUPPORT	11,672,231	60,000	-	11,732,231	18,325,513	144,800	-	18,470,313
SPECIAL EVENTS:								
Current year underwritings and tickets and sales	1,866,682	5,000	-	1,871,682	1,610,065	5,000	-	1,615,065
REVENUES:								
Applications	84,721	-	-	84,721	55,619	-	-	55,619
Other revenues and gains (loss), net	144,530	-	(4,299)	140,231	209,031	-	(5,052)	203,979
TOTAL REVENUES	229,251	-	(4,299)	224,952	264,650	-	(5,052)	259,598
NET INVESTMENT GAIN	59,159	304,610	-	363,769	18,688	642,768	-	661,456
NET ASSET								
Released from restrictions	2,350,300	(2,350,300)	-	-	3,206,500	(3,206,500)	-	-
TOTAL SUPPORT, SPECIAL EVENTS, REVENUES AND GAINS (LOSS)	$ 16,177,623	$ (1,980,690)	$ (4,299)	$ 14,192,634	$ 23,425,416	$ (2,413,932)	$ (5,052)	$ 21,006,432

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL FOUNDATION FOR
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES
D/B/A NATIONAL YOUNGARTS FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
FOR THE YEARS ENDED JUNE 30,

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES:								
YoungArts program	$ 10,613,331	$ -	$ -	$ 10,613,331	$ 10,690,530	$ -	$ -	$ 10,690,530
General and administrative	1,358,208	-	-	1,358,208	2,485,126	-	-	2,485,126
Development	2,224,053	-	-	2,224,053	1,752,767	-	-	1,752,767
TOTAL EXPENSES	14,195,592	-	-	14,195,592	14,928,423	-	-	14,928,423
CHANGE IN NET ASSETS	1,982,031	(1,980,690)	(4,299)	(2,958)	8,496,993	(2,413,932)	(5,052)	6,078,009
NET ASSETS - BEGINNING OF YEAR	25,634,729	30,121,509	11,821,743	67,577,981	17,137,736	32,535,441	11,826,795	61,499,972
NET ASSETS - END OF YEAR	**$ 27,616,760**	**$ 28,140,819**	**$ 11,817,444**	**$ 67,575,023**	**$ 25,634,729**	**$ 30,121,509**	**$ 11,821,743**	**$ 67,577,981**

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL FOUNDATION FOR
ADVANCEMENT IN THE ARTS, INC. SUBSIDIARIES
D/B/A NATIONAL YOUNGARTS FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

		Supporting Services		
	YoungArts Program	General and Administrative	Development	Total
Salaries and benefits	$ 2,792,353	$ 319,236	$ 970,019	$ 4,081,608
Advertising	213,940	-	-	213,940
Bank charges and fees	-	23,686	-	23,686
Campus operating expenses	628,324	78,540	78,540	785,404
Depreciation	428,867	53,608	53,608	536,083
Equipment rentals and maintenance	188,036	125,408	-	313,444
Grants, awards and stipends	1,017,300	-	-	1,017,300
Independent contractors	688,080	60,000	99,996	848,076
Insurance and taxes	367,991	45,999	45,999	459,989
In-kind expenses	1,026,695	451,401	-	1,478,096
Materials, supplies and services	450,915	32,741	187,348	671,004
Postage and distribution	69,770	-	-	69,770
Printing, design and photo	524,118	-	-	524,118
Professional fees	555,479	149,432	-	704,911
Program and event consultants	400,405	-	-	400,405
Publishing and website	45,258	-	-	45,258
Rental facilities	147,265	-	-	147,265
Special events	-	-	719,578	719,578
Telephone	73,902	-	-	73,902
Travel	994,633	18,157	68,965	1,081,755
TOTAL EXPENSES	**$ 10,613,331**	**$ 1,358,208**	**$ 2,224,053**	**$ 14,195,592**

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL FOUNDATION FOR
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES
D/B/A NATIONAL YOUNGARTS FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

		Supporting Services		
	YoungArts Program	General and Administrative	Development	Total
Salaries and benefits	$ 3,143,029	$ 335,274	$ 793,418	$ 4,271,721
Advertising	151,963	-	-	151,963
Bank charges and fees	-	14,795	-	14,795
Campus operating expenses	539,524	67,440	67,440	674,404
Depreciation	346,709	43,339	43,339	433,387
Equipment rentals and maintenance	197,274	111,750	-	309,024
Grants, awards and stipends	988,903	-	-	988,903
Independent contractors	614,187	48,000	29,299	691,486
Insurance and taxes	260,927	32,616	32,616	326,159
In-kind expenses	1,217,550	1,683,620	-	2,901,170
Materials, supplies and services	517,410	21,742	202,000	741,152
Postage and distribution	72,903	-	-	72,903
Printing, design and photo	445,217	-	-	445,217
Professional fees	554,412	106,357	-	660,769
Program and event consultants	430,378	-	-	430,378
Publishing and website	4,250	-	-	4,250
Rental facilities	124,791	-	-	124,791
Special events	-	-	554,558	554,558
Telephone	68,654	-	-	68,654
Travel	1,012,449	20,193	30,097	1,062,739
TOTAL EXPENSES	**$ 10,690,530**	**$ 2,485,126**	**$ 1,752,767**	**$ 14,928,423**

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL FOUNDATION FOR
ADVANCEMENT IN THE ARTS, INC. AND SUBSIDIARIES
D/B/A NATIONAL YOUNGARTS FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (2,958)	$ 6,078,009
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	537,693	431,777
Unrealized loss from investments, net	247,959	1,182,911
Realized loss (gains) from investments, net	479,339	(661,953)
Unrealized loss in interest in charitable remainder unitrust	4,299	5,052
Changes in assets:		
Restricted cash	84,800	(143,300)
Pledges and other receivables, net	(195,289)	20,421
Prepaid expenses and other assets	(19,785)	(83,363)
Changes in liabilities:		
Accounts payable, accrued expenses and other liabilities	(256,013)	(568,463)
Accrued loss on abandoned operating lease	-	(1,170,556)
TOTAL ADJUSTMENTS	883,003	(987,474)
NET CASH PROVIDED BY OPERATING ACTIVITIES	880,045	5,090,535
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,810,662)	(2,317,797)
Proceeds from investments, net	1,053,225	2,012,630
NET CASH USED IN INVESTING ACTIVITIES	(757,437)	(305,167)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash flows from restricted contributions	7,598	-
Proceeds from line of credit	-	2,573,142
Repayments of line of credit	(6,470)	(7,588,015)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,128	(5,014,873)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	123,736	(229,505)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	115,685	345,190
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 239,421**	**$ 115,685**

	2016	2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW TRANSACTIONS:		
Interest paid	**$ 6,271**	**$ 74,379**
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS:		
In-kind	**$ 1,478,096**	**$ 2,901,170**

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Structure

The National Foundation for Advancement in the Arts, Inc. d/b/a National YoungArts Foundation ("NFAA") is a non-profit organization under the Florida Not-For-Profit Corporation Act and is exempt from income taxes according to provisions of Section 501(c)(3) of the Internal Revenue Code. The National YoungArts Foundation identifies and nurtures the most accomplished young artists in the visual, literary, design and performing arts and assists them at critical junctures in their educational and professional development. YoungArts aspires to create a community of alumni that provides a lifetime of encouragement, opportunity and support. Management believes the NFAA qualifies for the charitable contribution deduction and has been classified as a foundation that is not a private foundation.

On August 28, 2013, NFAA became the sole member of National YoungArts Foundation Campus, LLC (the "LLC"). NFAA contributed 100% of its interest in its newly purchased facilities to the LLC in exchange for a 100% interest in the LLC. As a limited liability company, liability is limited to amounts reflected in the member account. The LLC shall have a perpetual existence until it is dissolved and its affairs are wound up in accordance with the respective operating agreement. On June 30, 2015, NFAA transferred its interest in National YoungArts Foundation Campus, LLC to the National YoungArts Foundation Supporting Organization, a separate nonprofit organization. The National YoungArts Foundation Supporting Organization, through its subsidiary National YoungArts Foundation Campus, LLC, then entered into a lease agreement with NFAA whereby NFAA rents the campus' real and personal property (including buildings, land and furniture) from the LLC.

Basis of Accounting

The consolidated financial statements include the accounts of the National Foundation for Advancement in the Arts, Inc., the National YoungArts Foundation Supporting Organization, and the latter's subsidiary, the National YoungArts Foundation Campus, LLC. (collectively referred to as the "Foundation"). National YoungArts Foundation Supporting Organization owns 100% of the membership interest in National YoungArts Foundation Campus, LLC, and the LLC owns the campus' real property and improvements. The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany accounts and transactions have been eliminated in the consolidation.

Consolidated Financial Statement Presentation

Net assets and revenues, gains and losses are classified into three classes of net assets based on the existence or absence of donor-imposed restrictions. The three classes of net asset categories are as follows:

Unrestricted – Net assets which are free of donor-imposed restrictions; all revenues, gains, and losses that are not changes in temporarily restricted or permanently restricted net assets. A portion of these net assets are designated by the Board for future investment and are reflected on the Consolidated Statements of Financial Position as unrestricted net assets - board designated.

Temporarily Restricted – Net assets where the use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Foundation pursuant to those stipulations.

Permanently Restricted – Net assets where the use by the Foundation is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Concentration of Revenue Source

Two related entities, a trust for the benefit of an individual and a corporation, provided approximately 80% of the Foundation's total support for the years ended June 30, 2016 and 2015. The Foundation relies upon the related entities continued support to fund operations.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Foundation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents primarily consist of general checking, payroll and savings accounts. Money market funds which are included within investments are not included within cash and cash equivalents.

Restricted Cash

Restricted cash consists of a cash and money market fund temporarily restricted for arts education programs.

Pledges and Other Receivables, Net

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Pledges determined to be uncollectible during the year in which such pledges are received are shown as a reduction of contributions. Pledges determined to be uncollectible subsequent to the year in which such pledges are received are charged to the allowance for uncollectible pledges. The allowance for uncollectible pledges is based on the Foundation's historical pledge collection experience and management's evaluation of other pertinent factors. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in more than one year are discounted using a market rate of return and are recorded at net present value. No allowance for doubtful accounts was considered necessary by management as of June 30, 2016 and 2015.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Consolidated Statements of Financial Position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the Consolidated Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Investments in alternative investments are valued using the most recent valuation available from the respective external fund manager.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist primarily of amounts expended for insurance and other expenses.

Property and Equipment, Net

All acquisitions of furniture, equipment and leasehold improvements in excess of $5,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Furniture and equipment are recorded at cost, or if contributed, at fair value at the time of the donation, and depreciated using the straight-line method over the estimated useful lives of the assets.

When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and gains or losses, if any, are recognized currently. Repairs and maintenance are charged to expense as incurred. Donations of property and equipment are recorded as support at their estimated fair value.

Useful lives are as follows:

Building and building improvements	30 years
Furniture and equipment	3 – 7 years
Website	5 years

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The carrying value of long-lived assets is reviewed if the facts and circumstances, such as significant declines in revenues, earnings or cash flows or material adverse changes in the business climate, indicate that they may be impaired. The Foundation performs its review by comparing the carrying amounts of long-lived assets to the estimated undiscounted cash flows relating to such assets. If any impairment in the value of the long-lived assets is indicated, the carrying value of the long-lived assets is adjusted to reflect such impairment based on the fair value of the impaired assets or an estimate of fair value based on discounted cash flows.

Contributions

Contributions are recorded at their estimated fair values on the date of the contribution. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. However, donor-restricted contributions whose restrictions are met within the same fiscal year are reported as unrestricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets through the release from restrictions.

In-Kind Contributions

Donated services are recognized as contributions if the services create or enhance a non-financial asset, or require specialized skills and are performed by people with those skills or the costs of such services are paid on behalf of the foundation, and such services would otherwise be purchased by the Foundation. The Foundation records these contributions at fair value and in the period the services were provided as both support and expense in the Consolidated Statements of Activities. Accordingly, the Foundation recognized approximately $1,478,000 and $2,901,000 of in-kind contributions during the years ended June 30, 2016 and 2015, respectively. Volunteers contribute a wide array of services supporting all functions of the Foundation; however, these services do not meet the criteria for recognition.

Expense Classifications

<u>YoungArts Program</u>: YoungArts encourages young artists by creating opportunities for them to advance in their educational pursuits. The YoungArts program serves the fifty states and territories of the United States of America. The national YoungArts program is complimented by regional programs in New York, Los Angeles and Miami. The arts education program focuses on furthering arts education by providing master classes from professional artists and mentorship from expert resident advisors to aspiring young artists, as well as, providing young artists performance opportunities. Program expenses include the costs of events that are program-related, including master teacher fees.

<u>General and Administrative</u>: Expenses include the costs of operations of the Foundation which do not relate specifically to other functional categories but benefit all functions indirectly.

<u>Development</u>: Expenses include the costs of fundraising. These costs include payroll, occupancy and office expenses as well as the costs of certain fundraising events.

Expense Allocation

Expenses are allocated to the various functional categories based on the purpose achieved by each expenditure. Payroll, occupancy and office expenses of employees whose time may benefit more than one activity are allocated based on an estimate of percentage of time devoted to each function and other criteria based on management's estimates.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Foundation 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These include, but are not limited to, the determination of the net realizable value of receivables, fair market value of investments and the useful lives of acquired assets. Actual results could vary from the estimates that were used.

Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and investments.

At times, such balances may be in excess of the insurance limits of the Federal Deposit Insurance Corporation. The Foundation has not experienced losses on its cash and cash equivalents.

Investments are subject to both credit and market risks. Credit risk is the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is the possibility that fluctuations in the investment market will impact the value of the portfolio. The Foundation has an investment policy and has hired professional investment advisors, who report to the board of trustees and management and periodically review the investment portfolio to monitor these risks.

Tax Status

The National Foundation for Advancement in the Arts and the National YoungArts Foundation, Supporting Organization are separately registered with the Internal Revenue Service as non-profit organizations under Internal Revenue Code Section 501(c)(3) and, accordingly, are exempt from income taxes. The wholly-owned subsidiary, National YoungArts Foundation Campus, LLC is considered a disregarded entity.

The Foundation recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Foundation files income tax returns. The Foundation is generally no longer subject to U.S. Federal or State examinations by tax authorities for fiscal years before 2013.

Adopted Accounting Pronouncements

Services Received from Personnel of an Affiliate

In April 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which requires not-for-profit entities to apply similar recognition and measurement bases for services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the recipient not-for-profit entity is not charged by the affiliate. The update requires that those services be measured at the cost recognized by the affiliate for the personnel providing those services unless such measurement would significantly overstate or understate the value of the service received, in which case the recipient not-for-profit entity may elect to recognize such services at the fair value of the service. The update is effective prospectively for fiscal years beginning after June 15, 2014, and interim periods thereafter, with early adoption permitted. The Foundation evaluated and concluded there was no effect on its consolidated financial statements.

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued an accounting standard update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Foundation is currently evaluating the effect the update will have on its consolidated financial statements.

Reclassification

Certain items on the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Subsequent Events

The Foundation has evaluated subsequent events through November 16, 2016, which is the date the consolidated financial statements were available to be issued.

2. INVESTMENTS

The Foundation has invested in the following funds at June 30:

	2016	2015
Money market	$ 1,226,718	$ 1,420,098
Common stocks	20,192,945	21,056,627
Mutual funds	13,966,478	14,333,840
Alternative strategies	6,731,844	7,087,943
Total investments	**$ 42,117,985**	**$ 43,898,508**

Total investment income from cash equivalents, investments and interest in charitable remainder unitrust is comprised of the following for the years ended June 30:

	2016	2015
Interest and dividends	$ 1,291,122	$ 1,345,424
Net realized (loss) gains	(479,339)	661,953
Net unrealized loss	(247,959)	(1,182,911)
Investment fees	(200,055)	(163,010)
Total investment income	**$ 363,769**	**$ 661,456**

3. FAIR VALUE MEASUREMENTS

The FASB Accounting Standards Codification established a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs of 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 as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 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 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Money market: Valued at cost, which approximates fair value.

3. FAIR VALUE MEASUREMENTS (CONTINUED)

Common stocks: Common stocks are valued at the closing price reported in the active market in which the individual securities are traded.

Mutual funds: Valued at the closing price reported in the active market in which the individual securities are traded.

Alternative strategies: Valued by the underlying investments of the funds and are valued at fair value on a monthly basis by the investment managers. Certain funds are redeemable at their net asset value per share on a monthly basis. These investments have been classified as Level 3. In determining the level, the Foundation considers the length of time until the investment is redeemable, including notice and lock up periods or any other restriction on the disposition of the investment. The Foundation also considers the nature of the portfolios of the underlying investments and their ability to liquidate their underlying investments. If the Foundation has the ability to redeem its investment at the reported net asset valuation as of the measurement date, the investment is generally included in Level 2 of the fair value hierarchy. If the Foundation does not know when it will have the ability to redeem the investment or it does not have the ability to redeem the investment in the near term, the investment is included in Level 3 of the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The values assigned to certain investments are based upon currently available information and do not necessarily represent amounts that may ultimately be realized. Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be material.

The following table represents the Foundation’s financial instruments measured at fair value on a recurring basis for each of the fair value hierarchy levels:

		Fair Value Measurements at June 30, 2016		
Description	**Fair Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Assets:				
Money market	$ 1,226,718	$ 1,226,718	$ -	$ -
Common stocks	20,192,945	20,192,945	-	-
Mutual funds	13,966,478	13,966,478	-	-
Alternative strategies	6,731,844	-	-	6,731,844
	$ 42,117,985	**$ 35,386,141**	**$ -**	**$ 6,731,844**

		Fair Value Measurements at June 30, 2015		
Description	**Fair Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Assets:				
Money market	$ 1,420,098	$ 1,420,098	$ -	$ -
Common stocks	21,056,627	21,056,627	-	-
Mutual funds	14,333,840	14,333,840	-	-
Alternative strategies	7,087,943	-	-	7,087,943
	$ 43,898,508	**$ 36,810,565**	**$ -**	**$ 7,087,943**

3. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended June 30:

	2016	2015
Balance, beginning of year	$ 7,087,943	$ 9,192,872
Withdrawals	(44,610)	(2,379,460)
Purchases	-	-
Net investment gains	(311,489)	274,531
Balance, end of year	**$ 6,731,844**	**$ 7,087,943**

Net Asset Value per Share

Alternative strategies include investments in limited partnerships where the Foundation has the right to withdraw its investments at least quarterly, or annually after the expiration of "lock-up" periods of one to three years pursuant to the respective offering memorandums. The underlying investments of the funds are valued at fair value on a quarterly basis by the partnerships. Also included in Alternative strategies are investments in offshore funds that include investments in hedge funds. As part of the Alternative strategies investment structure, initial capital call commitments are required.

	Fair Value as of 6/30/2016	Unfunded Commitments as of 6/30/2016	Redemption Frequency	Redemption Notice Period
Double Black Diamond Ltd (a)	$ 3,349,147	$ -	Various	Various
Corsair Capital Investors Ltd (b)	1,352,493	-	Quarterly	60 days
Blue Mountain Credit Alternatives Master Fund L.P. (c)	2,030,204	-	Quarterly	90 Days
Total	**$ 6,731,844**	**$ -**		

The following is a summary of the investment strategies of the investments valued at net asset value:

(a) The fund's objective is to provide investors with capital appreciation through allocation of its assets among a diverse group of money managers. Investment strategies include equity, debt securities, options, futures, forwards, swap contracts and other equity derivatives of both United States of America and foreign issuers.

(b) The objective of the fund is to achieve above average capital appreciation, relative to the risk assumed. Investment strategies include primarily publicly traded securities.

(c) The objective of the limited partnership is to seek the appreciation of assets through trading and investment, primarily in long or short positions in credit derivatives, equity derivatives, corporate and convertible bonds, loans, equities, and other asset backed securities.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at June 30:

	2016	2015
Land	$ 11,889,951	$ 11,889,951
Building and building improvements	11,463,210	9,553,561
Furniture and equipment	1,081,622	1,001,962
Construction in progress	2,931,919	3,057,899
Website	65,000	65,000
	27,431,702	25,568,373
Accumulated depreciation	(1,530,182)	(992,489)
	$ 25,901,520	**$ 24,575,884**

4. PROPERTY AND EQUIPMENT, NET (CONTINUED)

During the year ended June 30, 2015, one of the Foundation's major donors paid for various construction related costs which is reflected as an in-kind donation of $1,907,793 in connection with the refurbishing of the building purchased in 2013. Depreciation expense for the years ended June 30, 2016 and 2015 totaled $537,693 and $431,777, respectively.

Construction in Progress

Through June 30, 2016, the Foundation incurred $2,931,919 of costs which are capitalized into construction in progress. Subsequent to year end, the Foundation incurred an additional $37,215 of construction costs related to certain projects. The Foundation is in the process of determining final construction plans.

5. INTEREST IN CHARITABLE REMAINDER UNITRUST

A donor established an irrevocable trust naming the Foundation as a remainder beneficiary of a charitable remainder unitrust. Under terms of the trust, the Foundation is to receive the lesser of $500,000 or 25% of the trust's assets upon the death of the last surviving beneficiary. Based on a joint life and last survivor expectancy of approximately 21 years as of June 30, 2016 and 2015, at a 5% rate, the present value of future distributions is estimated to be $103,349 and $107,648 at June 30, 2016 and 2015, respectively. This amount is recorded as interest in charitable remainder unitrust in the Consolidated Statements of Financial Position. During the years ended June 30, 2016 and 2015, the charitable remainder unitrust depreciated by $(4,299) and $(5,052) respectively, which is included in net investment gains in the Consolidated Statements of Activities.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets totaled $28,140,819 and $30,121,509 as of June 30, 2016 and 2015, respectively, and are restricted for use in arts education programs.

7. BOARD DESIGNATED NET ASSETS

The Foundation has received various donations throughout the years from its donors which have been unrestricted as to purpose or time. Although these funds are included in unrestricted net assets, management and the Board of Trustees segregated these funds so that the principal is designated not to be expended without board approval. These funds totaled $2,266,908 and $2,207,749 as of June 30, 2016 and 2015, respectively.

8. ENDOWMENTS

Interpretation of Relevant Law

The Foundation's endowment consists of several investment funds established for a variety of purposes. Its endowment includes donor-restricted and board restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"). The Foundation has interpreted the FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the FUPMIFA.

8. ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law (Continued)

In accordance with FUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment fund earnings:

(1) The duration and preservation of the fund

(2) The purposes of the Foundation 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 Foundation

(7) The investment policies of the Foundation

Summary of Endowment Net Assets at June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 28,076,318	$ 11,817,444	$ 39,893,762
Board designated endowment funds	2,266,908	-	-	2,266,908
Total endowment net assets	**$ 2,266,908**	**$ 28,076,318**	**$ 11,817,444**	**$ 42,160,670**

Summary of Endowment Net Assets at June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 29,971,708	$ 11,821,743	$ 41,793,451
Board designated endowment funds	2,207,749	-	-	2,207,749
Total endowment net assets	**$ 2,207,749**	**$ 29,971,708**	**$ 11,821,743**	**$ 44,001,200**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ 2,207,749	$ 29,971,708	$ 11,821,743	$ 44,001,200
Net investment income	59,159	304,610	(4,299)	359,470
Released from restriction and appropriated for expenditure	-	(2,200,000)	-	(2,200,000)
Endowment net assets, ending	**$ 2,266,908**	**$ 28,076,318**	**$ 11,817,444**	**$ 42,160,670**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ 2,189,061	$ 32,528,940	$ 11,826,795	$ 46,544,796
Net investment income	18,688	642,768	(5,052)	656,404
Released from restriction and appropriated for expenditure	-	(3,200,000)	-	(3,200,000)
Endowment net assets, ending	**$ 2,207,749**	**$ 29,971,708**	**$ 11,821,743**	**$ 44,001,200**

8. ENDOWMENTS (CONTINUED)

Permanently Restricted Net Assets:	2016
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by FUPMIFA	$ 11,817,444

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016 or 2015. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets to the extent that the deficiencies fall below the permanently restricted corpus.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets on an inflation-adjusted basis. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that achieve the majority of the gains of the S&P 500 while limiting the negative returns caused by decreases in the S&P 500, by assuming a moderate level of investment risk and limiting volatility. The Foundation expects its endowment funds, over time, to provide a rate of return in excess of the original permanently restricted principal. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term objectives on an inflation adjusted basis with moderate volatility, the Foundation 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 Foundation 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation’s policy is to appropriate 5% of the average fiscal year-end endowment fund balance for the prior three years for distribution in the following fiscal year which totaled $700,000 for each of the years ended June 30, 2016 and 2015, respectively. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow, net of distributions, at an average of 3.25% percent annually. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

9. RETIREMENT PLAN

The Foundation has a defined contribution plan (the “Plan”) covering all full time employees over the age of 21 with at least one year of service. The Plan conforms to the provisions set by Internal Revenue Code Section 403(b), Defined Contribution (Money Purchase) Retirement Plan. The Foundation matches participants’ contributions to the Plan dollar-for-dollar up to 5% of the employee’s salary and the amount is fully vested when the contribution is made. Contributions for the years ended June 30, 2016 and 2015 were $71,677 and $75,367, respectively, and are reflected within salaries and benefits in the Consolidated Statements of Functional Expenses.

10. SPECIAL EVENTS

Revenues and expenses of special events held during the years ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
	Gala Affair	Gala Affair
Revenue:		
Underwriting	$ 260,700	$ 287,769
Tickets and sales	1,610,982	1,327,296
Total revenue	1,871,682	1,615,065
Expenses:		
Direct benefits	73,902	68,654
Net Special Events	**$ 1,797,780**	**$ 1,546,411**

11. ARTWORK GIFT

In June 2013, the Foundation received a gift of artwork valued at $2,000,000. Under the terms of the gift agreement, the Foundation will display the painting in its gallery and will use the artwork in its educational programming. The gift agreement specifies that the artwork will be loaned or donated (at the option of the Foundation), to the Art in Embassies program upon completion of a particular Embassy's construction. The Foundation currently plans to donate the artwork to the Art in Embassies Program, and thus the painting was recorded as an asset and liability in the Consolidated Statements of Financial Position as of June 30, 2016 and 2015 under the captions, "Artwork" and "Artwork pledged to a third party," respectively.

12. LINE OF CREDIT

The Foundation has a line of credit with a bank, with maximum borrowings of $15,000,000 and an original maturity date of January 23, 2015 which was extended through April 17, 2017. Interest on advances accrues at LIBOR plus .84% per annum (1.30% at June 30, 2016). The amount owed on this line of credit at June 30, 2016 was $523,530. The line of credit is secured by the education endowment. Interest expense under the line of credit was approximately $6,000 and $74,000 for the years ended June 30, 2016 and 2015, respectively, which has been capitalized to construction in progress (NOTE 4).

13. COMMITMENTS

Litigation

From time to time, the Foundation is involved in legal proceedings arising in the ordinary course of business. The Foundation believes there is no litigation pending against it that could have, individually or in the aggregate, a material adverse effect on its financial position, results of activities or cash flows.