

**THE FLAGLER AUDITORIUM
GOVERNING BOARD, INC.
BUNNELL, FLORIDA**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2012 AND 2011

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 Bunnell, Florida

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Independent Auditors' Report

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BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Flagler Auditorium Governing Board, Inc.
Bunnell, Florida

We have audited the accompanying financial statements of The Flagler Auditorium Governing Board, Inc., a component unit of Flagler County District School Board, as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Flagler Auditorium Governing Board, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012, on our consideration of The Flagler Auditorium Governing Board, Inc.'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 15 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.

Brent Milliken & Co., P.A.

October 30, 2012

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 "Organization"), we offer the readers of these basic financial statements this narrative overview and analysis of the Organization's financial activities for the fiscal year that ended on June 30, 2012. 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 Organization's financial statements, which follow this information.

Financial Highlights

- The Organization's overall combined assets totaled \$436,593 at the close of the 2012 fiscal year compared to \$342,487 last year. Total assets exceeded liabilities by \$432,250 (*combined net assets*) compared with \$314,565 one year earlier.
- The Organization's combined net assets increased by \$117,685 in 2012, compared to an increase of \$71,796 in 2011. Amounts invested in capital assets and not available for use totaled \$13,882 at the end of 2012 and \$11,879 at the end of 2011. Net assets restricted for expendable uses totaled \$242,431 at year end, which consists of restricted community support donations of \$24,000 internally designated transfers of \$200,000 for capital additions and restricted state designated art license plate funds of \$18,431. Unrestricted net assets increased by \$9,124 in 2012 to a total of \$175,937, compared to \$166,813, one year earlier, all of which represents unrestricted amounts that may be used to meet the Organization's ongoing obligations for its program activities.
- The Organization generated gross performance and concession related revenues totaling \$444,304 in 2012, which was approximately 16% above the \$382,201 generated in 2011. Direct production costs consisting of producers, artists, contractors, advertising and concessions expenses totaled \$366,445, compared to \$342,718 one year earlier. Other community support, grants and fundraising produced revenues of \$92,432 and \$82,669 during 2012 and 2011, respectively.
- The Organization provided student scholarships of \$14,064 and \$10,925 in the years ended June 30, 2012 and 2011, respectively.

Overview of the Financial Statements

The Organization presents its financial statements for the fiscal year ended June 30, 2012, which include for comparative purposes the fiscal year ended June 30, 2011. The Organization is a direct support organization and component unit of 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 assets to the School District exists pursuant to Section 1001.453(1)(a)(1), Florida Statutes. The Organization accounts for its transactions in accordance with the pronouncements issued by the Governmental Accounting Standards Board (GASB). The Organization is considered a Business-Type Activity under the provisions of GASB 34 and 35.

The Organization'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:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement 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 Organization's overall financial status, including its business-type activities. These statements report information about the Organization using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Organization'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 Organization's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Statement of Net Assets

Net Assets. Net assets may serve over time as a useful indicator of an organization's financial position. This year, the Organization's combined total assets exceeded liabilities (net assets) by \$432,250 at the end of 2012 (compared to the amount of \$314,565 at the end of 2011), which is summarized as follows:

Net Assets				
June 30, 2012 and 2011				
	<u>2012</u>	<u>2011</u>	Increase (Decrease)	Percent Change
Assets:				
Current and other assets.....	\$ 203,926	198,951	4,975	2.5%
Noncurrent assets.....	<u>232,667</u>	<u>143,536</u>	<u>89,131</u>	62.1%
Total assets.....	<u>436,593</u>	<u>342,487</u>	<u>94,106</u>	27.5%
Liabilities:				
Current liabilities.....	4,343	27,922	(23,579)	-84.4%
Noncurrent liabilities.....	-	-	-	
Total liabilities.....	<u>4,343</u>	<u>27,922</u>	<u>(23,579)</u>	-84.4%
Net Assets:				
Invested in capital assets.....	13,882	11,879	2,003	16.9%
Restricted-nonexpendable.....	-	-	-	
Restricted-expendable.....	242,431	135,873	106,558	78.4%
Unrestricted.....	<u>175,937</u>	<u>166,813</u>	<u>9,124</u>	5.5%
Total net assets.....	<u>\$ 432,250</u>	<u>314,565</u>	<u>117,685</u>	37.4%

Total assets increased over last year by \$94,106 to a total of \$436,593, or an increase of 27.5%. Total assets consist primarily of cash and cash equivalents, which make up 42% of total assets, short term investments which include three certificates of deposit make up 54%, accounts receivable which make up 1% of total assets and net capital assets, which make up 3%.

The Organization's total liabilities consist of accounts payable for current period operations activities of \$819 at the end of 2012, compared to \$2,447 one year earlier and ticket and advertising revenue received in advance (deferred revenue) totaling \$3,524 at the end of 2012, as compared to \$25,475 at the end of 2011.

Net assets invested in capital assets totaled \$13,882 at the end of 2012. Amounts restricted for future donor pre-designated capital additions totaled \$242,431 at year end, including internally designated transfers of \$200,000. Unrestricted net assets totaled \$175,937 at the end of 2012, compared to \$166,813 one year earlier.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in Net Assets. While the statement of net assets shows a snapshot of the Organization's financial position at the end of the fiscal year, the statement of changes in net assets provides answers as to the nature and sources of those changes. During 2012, the Organization's total operating revenues increased by \$73,827 to a total of \$542,269, compared to \$468,442 in the prior year. This year's increase was primarily due to an increase in performance ticket sales in the current year. During 2012, approximately 82% of the Organization's revenue was derived from performance tickets, showbills, and concessions (\$444,304), compared with 81% (\$382,201) in the previous year. At the same time, the Organization's combined revenues from local community patronage and support, state grants and fundraising revenues increased in 2012 to \$92,432, compared to \$82,669 in 2011.

The Organization's spending on entertainment productions, advertising and concessions totaled \$366,445 in 2012, compared to \$342,718 in 2011, primarily from the increased cost of individual productions and advertising. Amounts paid for student scholarships were \$14,064 and \$10,925, respectively for years ended 2012 and 2011. Fundraising expenses increased from \$12,353 in 2011 to \$12,818 in 2012. The Organization's general and administrative costs increased slightly from \$33,638 in 2011 to \$35,404 in 2012. Overall, administrative costs represented only 8% of the Organization's spending in 2012.

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

Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Contributions, donations and corporate support.....	\$ 444,304	382,201	62,103	16.2%
Community support.....	71,343	56,714	14,629	25.8%
Performance grants.....	3,000	2,667	333	100.0%
Fundraising.....	18,089	23,288	(5,199)	-22.3%
Other revenues.....	<u>5,533</u>	<u>3,572</u>	<u>1,961</u>	54.9%
Total operating revenues.....	<u>542,269</u>	<u>468,442</u>	<u>73,827</u>	15.8%
Operating Expenses:				
Program services.....	393,327	365,996	27,331	7.5%
Support services.....	<u>35,404</u>	<u>33,638</u>	<u>1,766</u>	5.3%
Total operating expenses.....	<u>428,731</u>	<u>399,634</u>	<u>29,097</u>	7.3%
Operating income.....	113,538	68,808	44,730	65.0%
Nonoperating income:				
Investment income.....	<u>4,147</u>	<u>2,988</u>	<u>1,159</u>	38.8%
Increase in net assets.....	<u>\$ 117,685</u>	<u>71,796</u>	<u>45,889</u>	63.9%

Statement of Cash Flows

The Organization's net cash provided by operating activities continued to remain strong in 2012 and produced \$99,978 compared to \$95,959 generated during the previous year.

Net cash used for investing activities amounted to \$105,821 in 2012, compared to \$59,159 in the prior year. During the year, the Organization purchased one certificate of deposit of \$100,000 with a maturity date of two years. The two year maturity was selected to take advantage of a slightly higher rate of return as compared to a one year investment. In addition, the Organization acquired \$6,848 of equipment in 2012.

Capital Assets

Capital Assets. At June 30, 2012 and 2011, the Organization's investment in capital assets for its business type activities totaled \$13,882 and \$11,879, respectively. These amounts are stated net of accumulated depreciation of \$54,480 and \$49,635 for 2012 and 2011, respectfully. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule.

	Capital Assets			
	For the Years Ended June 30, 2012 and 2011			
	Balance			Balance
	<u>7/1/2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2012</u>
Capital Assets:				
Machinery and equipment.....	\$ 61,514	6,848	-	68,362
Accumulated Depreciation:				
Machinery and equipment.....	<u>(49,635)</u>	<u>(4,845)</u>	<u>-</u>	<u>(54,480)</u>
Capital Assets, net.....	<u>\$ 11,879</u>	<u>2,003</u>	<u>-</u>	<u>13,882</u>

Economic Factors that will Affect the Future

Attendance at, and participation in, Organization productions along with charitable giving continue to be significantly affected by many factors including the general state of the economy, the health of the stock market and prospective donors' perception of the benefiting organization. Toward this latter factor, the Organization has historically enjoyed a very positive reputation in the communities it serves. While economic factors do ultimately affect charitable giving in general, the Organization has a developed a history of steady growth regardless of changes in these factors.

Some of the major factors considered by the Organization 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 stagnant statewide and countywide unemployment rates of 8.6% and 11.9%, respectively, at the end of September 2012. These rates are lower than statewide and countywide rates of 10.9% and 14.9%, respectively, experienced approximately one year earlier.
- 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 Organization's finances and to demonstrate the Organization'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.

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Financial Statements

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STATEMENT OF NET ASSETS

June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

	2012	2011
Assets:		
Current Assets:		
Cash and cash equivalents (unrestricted).....	\$ 159,476	53,092
Cash and cash equivalents (restricted).....	23,646	135,873
Investments.....	15,992	-
Accounts receivable (net).....	4,812	9,577
SCRIP card inventories.....	<u>-</u>	<u>409</u>
Total current assets	203,926	198,951
Noncurrent Assets:		
Investments (restricted).....	218,785	131,657
Capital assets (net).....	<u>13,882</u>	<u>11,879</u>
Total assets	<u>\$ 436,593</u>	<u>342,487</u>
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable.....	\$ 819	2,447
Deferred revenues received in advance.....	<u>3,524</u>	<u>25,475</u>
Total current liabilities	<u>4,343</u>	<u>27,922</u>
Net Assets:		
Invested in capital assets.....	13,882	11,879
Restricted:		
Nonexpendable.....	-	-
Expendable.....	242,431	135,873
Unrestricted.....	<u>175,937</u>	<u>166,813</u>
Total net assets.....	<u>432,250</u>	<u>314,565</u>
Total liabilities and net assets.....	<u>\$ 436,593</u>	<u>342,487</u>

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

	2012	2011
Operating Revenues:		
Performances.....	\$ 397,019	360,106
Showbills and advertising.....	29,525	5,350
Concessions.....	17,760	16,745
Community patronage and support.....	71,343	56,714
Performance grants.....	3,000	2,667
Fundraising.....	18,089	23,288
Other income.....	<u>5,533</u>	<u>3,572</u>
Total operating revenues.....	<u>542,269</u>	<u>468,442</u>
Operating Expenses:		
Program Services:		
Producers and contractors.....	266,113	241,831
Advertising and showbill.....	88,095	91,040
Concessions.....	12,237	9,847
Scholarships.....	14,064	10,925
Fundraising.....	<u>12,818</u>	<u>12,353</u>
Total program services.....	<u>393,327</u>	<u>365,996</u>
Support Services:		
General and administrative.....	35,404	33,318
Bad debt expense.....	<u>-</u>	<u>320</u>
Total support services.....	<u>35,404</u>	<u>33,638</u>
Total operating expenses.....	<u>428,731</u>	<u>399,634</u>
Operating income.....	113,538	68,808
Nonoperating Revenue:		
Investment income.....	<u>4,147</u>	<u>2,988</u>
Change in net assets.....	117,685	71,796
Net Assets, beginning of year.....	<u>314,565</u>	<u>242,769</u>
Net Assets, end of year.....	<u>\$ 432,250</u>	<u>314,565</u>

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

	2012	2011
Cash Flows From Operating Activities:		
Cash received from performances, advertising and concessions.....	\$ 432,651	408,965
Cash received from grants and community support.....	74,343	59,381
Cash received from fundraising.....	18,089	23,288
Cash paid for productions and concessions.....	(366,445)	(344,168)
Cash paid for scholarship awards.....	(14,064)	(10,925)
Cash paid for fundraising.....	(12,409)	(10,568)
Cash paid for administrative costs.....	(32,187)	(30,014)
Net cash provided by operating activities.....	<u>99,978</u>	<u>95,959</u>
Cash Flows From Investing Activities:		
Cash received from investment maturities.....	-	50,000
Cash paid for purchase of certificates of deposit.....	(100,000)	(100,000)
Cash received from interest.....	1,027	1,841
Cash paid for purchase of equipment.....	(6,848)	(11,000)
Net cash used in investing activities.....	<u>(105,821)</u>	<u>(59,159)</u>
Net increase in cash and cash equivalents.....	(5,843)	36,800
Cash and Cash Equivalents - Beginning of Year.....	<u>188,965</u>	<u>152,165</u>
Cash and Cash Equivalents - End of Year.....	<u>\$ 183,122</u>	<u>188,965</u>
Reported in Statement of Net Assets as:		
Cash and Cash Equivalents - unrestricted.....	\$ 159,476	53,092
Cash and Cash Equivalents - restricted.....	<u>23,646</u>	<u>135,873</u>
Total Cash and Cash Equivalents.....	<u>\$ 183,122</u>	<u>188,965</u>

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

STATEMENTS OF CASH FLOWS - (Continued)

For the Years Ended June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

	2012	2011
Reconciliation of Increase in Net Assets To Net		
Cash Provided By Operating Activities:		
Operating income.....	\$ 113,538	68,808
Adjustments to Reconcile Changes in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation expense.....	4,845	3,474
Bad debt expense.....	-	320
Changes in Assets - (Increase) Decrease In:		
Accounts receivable.....	4,250	6,138
Due from Flagler District School Board.....	515	720
Inventories of SCRIP cards.....	409	1,785
Changes in Liabilities - Increase (Decrease) In:		
Accounts payable.....	(1,628)	150
Deferred revenues received in advance.....	<u>(21,951)</u>	<u>14,564</u>
Net cash provided by operating activities.....	<u>\$ 99,978</u>	<u>95,959</u>

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

Notes to the Financial Statements

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization – The Flagler Auditorium Governing Board, Inc. (the “Organization”) 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 Organization 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 – The financial statements of the Organization 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 Organization 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 Organization is considered a special-purpose government entity engaged exclusively in business-type activities. Accordingly, the Organization’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred.

Financial Statement Classification - Pursuant to the provisions of GASB Statement No. 20, the Organization has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 to its proprietary fund activities.

Fund Accounting – To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization 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 Organization’s financial activity is accounted for in a single business-type fund, which contains restricted and unrestricted components. The 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 Organization classifies its revenues as operating or non-operating according to the following criteria:

- Operating Revenues - include the primary activities of presenting performances, conducting fundraising events, soliciting and accepting donor contributions, other program revenues, un-endowed matching funds, and income from investments.
- Nonoperating Revenues (when applicable) - include contributions restricted for capital additions or endowments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

Donor Restricted Accounts – Investment income, including unrealized appreciation and depreciation, is allocated to the restricted expendable account on a pro rata basis based on the nonexpendable account balance. 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.

Capital Assets – Capital asset acquisitions intended to further the purpose of the Organization are accounted for as transfers to a separate net asset amount entitled “Net Investment in Capital Assets”. These assets 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.

The Organization’s operations are maintained at facilities owned and operated by the School District at no cost to the Organization. When applicable, capital asset acquisitions intended for direct contribution to the School District are recorded as expenditures in the Organization's accounting records.

Net Assets - The Organization's net assets are classified as follows:

- Invested in Capital Assets, Net of Related Debt – represents the Organization’s net investment in capital assets, net of outstanding obligations related to those assets, if any.
- Restricted Net Assets - Expendable - includes resources the Organization is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Restricted Net Assets-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 assets that are not restricted for any purpose and available for current operations.

Fair Value of Financial Instruments - The Organization did not hold any derivative instruments for trading purposes at June 30, 2012 and 2011, and does not invest in derivative instruments. The carrying amount of cash, receivables and payables approximates fair value.

Donated Property, Materials and Services – When applicable, donated property used to further the purposes of the Corporation is recorded at estimated fair value at the time of donation. However, the Organization does not recognize the value of donated materials and services used to further the purposes of the Organization in its financial statements.

Receivables – Accounts receivable are recorded at their anticipated realizable balances net of an allowance for uncollectible accounts, which is based upon management's analysis of historical trends.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

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

Income Taxes - The Organization 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 Organization has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code; therefore, no provision for income taxes has been recorded.

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.

Definitions -

- **Contracts** - Contracts consist of agreements with outside entities whereby the Organization agrees to provide certain facilities (usually through the School District) for a contracted fee.
- **Grants** - Grants consist of contractual arrangements with governmental or quasigovernmental entities, whereby the Organization agrees to carry out certain activities as specified in the grant document. Grants differ from contracts in that they involve public monies and usually carry greater restrictions as to purpose and use.
- **Programs** - Programs refer to various activities carried out by the Organization that are not of a contractual nature. These activities may involve cooperation with various outside agencies or departments within the School District or be directed solely by the Organization. These activities are represented by separate funds in the Organization's accounting records and may involve unrestricted resources, restricted resources, designated resources or some combination thereof.

NOTE 2 – BANK DEPOSITS

At June 30, 2012, the carrying amount of all cash deposits was \$417,599, and the related bank balances were \$419,630. The carrying amount of all cash deposits at June 30, 2011 was \$320,323, and the related bank balances were \$322,907. Included in these amounts at June 30, 2012 and 2011, are investments in certificates of deposit of \$234,777 and \$131,657, respectively. At June 30, 2012 and 2011, the balances of these deposits were fully insured by the FDIC. Petty cash and change drawer funds of \$300 and \$300 are also included in the reported balances at June 30, 2012 and 2011, respectively.

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

Interest Rate Risk. Generally, the Organization limits its exposure to fair value losses arising from increases in interest rates by limiting the investment of its operating funds in investments with maturities of less than one year. During 2012 and 2011, the Organization acquired certificates of deposit with a maturity dates of 2 years and 3 years, respectively, in an effort to increase its investment yields.

Credit Risk – State Statutes authorize the Organization 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 Organization has no investment policy that would further limit its

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

investment choices. During the years ended June 30, 2012 and 2011, the Organization 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, 2012 and 2011, the Organization's cash deposits were below federally insured limits. Through FDIC coverage and state statutes, all of this custodial credit risk is mitigated. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State's Chief Financial Officer as eligible to receive deposits from qualifying depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State's Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Advertising contracts and other.....	\$ 4,513	9,277
Due from Flagler District School Board-Internal Account.....	<u>300</u>	<u>300</u>
	4,813	9,577
Less allowance for uncollectible accounts.....	<u>-</u>	<u>-</u>
Accounts receivable, net.....	<u>\$ 4,813</u>	<u>9,577</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

NOTE 4 – CAPITAL ASSETS

Property and equipment as of June 30, 2012 and 2011 consisted of the following:

	Balance <u>7/1/2011</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/2012</u>
Capital Assets:				
Machinery and equipment.....	\$ 61,514	6,848	-	68,362
Accumulated Depreciation:				
Machinery and equipment.....	<u>(49,635)</u>	<u>(4,845)</u>	-	<u>(54,480)</u>
Capital Assets, net.....	<u>\$ 11,879</u>	<u>2,003</u>	-	<u>13,882</u>
	Balance <u>7/1/2010</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/2011</u>
Capital Assets:				
Machinery and equipment.....	\$ 50,514	11,000	-	61,514
Accumulated Depreciation:				
Machinery and equipment.....	<u>(46,161)</u>	<u>(3,474)</u>	-	<u>(49,635)</u>
Capital Assets, net.....	<u>\$ 4,353</u>	<u>7,526</u>	-	<u>11,879</u>

Depreciation expense for the years ended June 30, 2012 and 2011 totaled \$4,845 and \$3,474, respectively.

NOTE 5 – RESTRICTIONS ON NET ASSETS

Restricted - Nonexpendable – Net assets did not have any balances that included permanent, nonexpendable donor-imposed corpus restrictions at June 30, 2012 and 2011.

Restricted - Expendable – A summary of net changes in net assets that included restricted, but expendable donor-imposed or board-imposed restrictions consisted of the following at June 30, 2012 and 2011:

Year ended June 30, 2012	Balance <u>2011</u>	<u>Contributions</u>	<u>Uses</u>	Balance <u>2012</u>
R. and J. Hamilton Capital Fund.....	\$ 15,000	4,000	-	19,000
Capital Expansion Fund.....	100,000	100,000	-	200,000
C. W. Elliott Capital Fund.....	5,000	-	-	5,000
Arts License Plate Fund.....	<u>15,873</u>	<u>2,558</u>	-	<u>18,431</u>
Total.....	<u>\$ 135,873</u>	<u>106,558</u>	-	<u>242,431</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2012 and 2011

THE FLAGLER AUDITORIUM GOVERNING BOARD, INC.

Bunnell, Florida

Year ended June 30, 2011	Balance <u>2010</u>	<u>Contributions</u>	<u>Uses</u>	Balance <u>2011</u>
R. and J. Hamilton Capital Fund.....	\$ 15,000	-	-	15,000
Capital Expansion Fund.....	50,000	50,000	-	100,000
C. W. Elliott Capital Fund.....	5,000	-	-	5,000
Arts License Plate Fund.....	<u>-</u>	<u>15,873</u>	<u>-</u>	<u>15,873</u>
Total.....	<u>\$ 70,000</u>	<u>65,873</u>	<u>-</u>	<u>135,873</u>

NOTE 6 – RELATED PARTY TRANSACTIONS

The Organization 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 Organization 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 Organization throughout the year by the District without remuneration. The Organization has elected to not include the value of these donated materials and services, which are significant to the operations of the Organization, in the accompanying financial statements.

NOTE 7 – COMMITMENTS

The Organization 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 Organization carries commercial insurance. The Organization 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 Organization entered into formal contract commitments with various agents and performers totaling approximately \$246,000 for productions that will occur in the next fiscal year.

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 30, 2012 the date the financial statements were available to be issued.

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Compliance Reports

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BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

**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***

Board of Directors
The Flagler Auditorium Governing Board, Inc.
Bunnell, Florida

We have audited the financial statements of The Flagler Auditorium Governing Board, Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of The Flagler Auditorium Governing Board, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Flagler Auditorium Governing Board, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Flagler Auditorium Governing Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Flagler Auditorium Governing Board, Inc.'s financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of The Flagler Auditorium Governing Board, Inc. in a separate letter dated October 30, 2012.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and other regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.

October 30, 2012

BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Flagler Auditorium Governing Board, Inc.
Bunnell, Florida

In planning and performing our audit of the financial statements of The Flagler Auditorium Governing Board, Inc. (the Organization) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

During our audit of the 2012 financial statements, we noted the following deficiencies in internal control (as described above) and other matters:

Prior Year Recommendations

All items reported in the prior year have been corrected or are no longer applicable.

Current Year Recommendations

2012-01 Related Party Transactions

Financial reporting standards require disclosure of significant related-party transactions, including the nature of the relationship, a description of the transactions, dollar amounts of the transaction, and amounts due to or due from the related party at the financial statement date. During the current year, the organization entered into a related party transaction for the procurement of equipment which was properly discussed and subsequently approved by the Board of Directors. However, no formal cost comparison documentation was developed to support that the transaction was consummated under arms-length conditions.

Recommendation: We recommend that management adopt a formal policy to identify and monitor these types of transactions for proper inclusion of the appropriate financial statement disclosures. Also, such information should be shared with the Organization's governing Board to obtain appropriate approval.

Auditee Response: Governing Board policy, which requires disclosure of all transactions that might constitute a conflict of interest, was followed in this case. The Board reviewed the valuation and determined that this was a bargain transaction for the Auditorium substantially below fair market value. Year-end procedures will be adjusted to include a schedule for such future transactions with the appropriate back up.

We have also issued our report of independent certified public accountants, dated October 30, 2012, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, Disclosures in that report should be considered in conjunction with this management letter.

This communication is intended solely for the information and use of the Audit Committee, Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Brent Milliken & Co., P.A.

October 30, 2012