

DALLAS CHILDREN'S THEATER, INC.

FINANCIAL STATEMENTS

**Years Ended August 31, 2017 and 2016
with Report of Independent Auditors**

DALLAS CHILDREN’S THEATER, INC.

FINANCIAL STATEMENTS

Years Ended August 31, 2017 and 2016

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
Dallas Children's Theater, Inc.

We have audited the accompanying financial statements of Dallas Children's Theater, Inc. which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dallas Children's Theater, Inc. as of August 31, 2017 and 2016, and the results of its activities and its cash flows for the years then ended in conformity with GAAP.



Dallas, Texas
December 13, 2017

DALLAS CHILDREN'S THEATER, INC.
STATEMENT OF FINANCIAL POSITION

As of August 31, 2017

	<u>Operations</u>	<u>Capital</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 827,711	\$ 180,882	\$ 1,008,593
Certificates of deposit	49,973	-	49,973
Restricted cash and cash equivalents	15,242	-	15,242
Pledges receivable, net	141,329	15,000	156,329
Prepaid expenses and other assets	149,054	700	149,754
Total current assets	<u>1,183,309</u>	<u>196,582</u>	<u>1,379,891</u>
Other assets			
Discounted pledges receivable, net	44,585	9,908	54,493
Investments	25,199	251,718	276,917
Other assets, net of amortization of \$55,000	-	10,200	10,200
Total other assets	<u>69,784</u>	<u>271,826</u>	<u>341,610</u>
Fixed assets			
Land	-	2,600,000	2,600,000
Land improvements	55,700	1,214,299	1,269,999
Building and improvements	153,140	5,938,548	6,091,688
Furniture, fixtures, and equipment	327,064	654,940	982,004
Construction in progress	-	45,729	45,729
Less accumulated depreciation	<u>(380,546)</u>	<u>(3,181,442)</u>	<u>(3,561,988)</u>
Net fixed assets	<u>155,358</u>	<u>7,272,074</u>	<u>7,427,432</u>
Total assets	<u>\$ 1,408,451</u>	<u>\$ 7,740,482</u>	<u>\$ 9,148,933</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 42,509	\$ 2,000	\$ 44,509
Accrued expenses	31,018	25,530	56,548
Deferred revenue	331,181	-	331,181
Notes payable	5,264	64,373	69,637
Total current liabilities	<u>409,972</u>	<u>91,903</u>	<u>501,875</u>
Notes payable, net of current portion	877	835,773	836,650
Commitments and contingencies			
Net assets:			
Unrestricted	623,533	6,507,016	7,130,549
Temporarily restricted	364,069	205,790	569,859
Permanently restricted	10,000	100,000	110,000
Total net assets	<u>997,602</u>	<u>6,812,806</u>	<u>7,810,408</u>
Total liabilities and net assets	<u>\$ 1,408,451</u>	<u>\$ 7,740,482</u>	<u>\$ 9,148,933</u>

See accompanying notes to financial statements.

DALLAS CHILDREN'S THEATER, INC.

STATEMENT OF FINANCIAL POSITION

As of August 31, 2016

	Operations	Capital	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 627,819	\$ 191,509	\$ 819,328
Certificates of deposit	320,301	-	320,301
Restricted cash and cash equivalents	16,237	-	16,237
Pledges receivable, net	102,322	15,000	117,322
Prepaid expenses and other assets	170,712	700	171,412
Total current assets	1,237,391	207,209	1,444,600
Other assets			
Discounted pledges receivable, net	19,816	19,816	39,632
Investments	22,307	222,823	245,130
Other assets, net of amortization of \$46,750	-	2,750	2,750
Total other assets	42,123	245,389	287,512
Fixed assets			
Land	-	2,600,000	2,600,000
Land improvements	55,700	1,346,370	1,402,070
Building and improvements	138,429	5,938,548	6,076,977
Furniture, fixtures, and equipment	327,064	654,940	982,004
Less accumulated depreciation	(357,667)	(2,944,847)	(3,302,514)
Net fixed assets	163,526	7,595,011	7,758,537
Total assets	\$ 1,443,040	\$ 8,047,609	\$ 9,490,649
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 54,540	\$ -	\$ 54,540
Accrued expenses	52,740	3,678	56,418
Deferred revenue	358,051	-	358,051
Notes payable	5,264	63,082	68,346
Total current liabilities	470,595	66,760	537,355
Note payable, net of current portion	6,141	899,924	906,065
Commitments and contingencies			
Net assets:			
Unrestricted	460,950	6,754,600	7,215,550
Temporarily restricted	495,354	226,325	721,679
Permanently restricted	10,000	100,000	110,000
Total net assets	966,304	7,080,925	8,047,229
Total liabilities and net assets	\$ 1,443,040	\$ 8,047,609	\$ 9,490,649

See accompanying notes to financial statements.

DALLAS CHILDREN'S THEATER, INC.

STATEMENT OF ACTIVITIES

Year ended August 31, 2017

	Operations			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, gains, and other support:				
Support				
Foundation	\$ 363,529	\$ 80,000	\$ -	\$ 443,529
Corporation	371,626	-	-	371,626
Individuals	156,772	10,797	-	167,569
Special events, net of direct expenses of \$145,921 and including in-kind of \$66,390	325,064	-	-	325,064
In-kind contributions	82,451	-	-	82,451
Grants				
Government grants	182,942	-	-	182,942
Restricted grant - Crystal Charity Ball	-	-	-	-
Total support	<u>1,482,384</u>	<u>90,797</u>	<u>-</u>	<u>1,573,181</u>
Revenue				
Ticket sales	1,228,722	-	-	1,228,722
Tour presenter fees	562,036	-	-	562,036
Tuition	629,716	-	-	629,716
Rental and other	209,142	2,651	-	211,793
Net unrealized and realized gains on investments	3,292	(400)	-	2,892
Interfund transfer	(36,000)	-	-	(36,000)
Total revenue	<u>2,596,908</u>	<u>2,251</u>	<u>-</u>	<u>2,599,159</u>
Net assets released from restriction				
Expiration of time and purpose restrictions	224,333	(224,333)	-	-
Total revenue, gains, and other support	<u>4,303,625</u>	<u>(131,285)</u>	<u>-</u>	<u>4,172,340</u>
Expenses:				
Program services	3,386,352	-	-	3,386,352
Management and general	414,470	-	-	414,470
Fundraising	340,220	-	-	340,220
Total expenses	<u>4,141,042</u>	<u>-</u>	<u>-</u>	<u>4,141,042</u>
Changes in net assets	162,583	(131,285)	-	31,298
Net assets at beginning of year	<u>460,950</u>	<u>495,354</u>	<u>10,000</u>	<u>966,304</u>
Net assets at end of year	<u>\$ 623,533</u>	<u>\$ 364,069</u>	<u>\$ 10,000</u>	<u>\$ 997,602</u>

See accompanying notes to financial statements.

DALLAS CHILDREN'S THEATER, INC.
STATEMENT OF ACTIVITIES (continued)

Year ended August 31, 2017

	Capital			Total	Total Funds
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue, gains, and other support:					
Support					
Foundation	\$ -	\$ 80,000	\$ -	\$ 80,000	\$ 523,529
Corporation	-	20,543	-	20,543	392,169
Individuals	-	700	-	700	168,269
Special events	-	-	-	-	325,064
In-kind contributions	10,200	-	-	10,200	92,651
Grants					
Government grants	-	-	-	-	182,942
Restricted grant - Crystal Charity Ball	-	-	-	-	-
Total support	<u>10,200</u>	<u>101,243</u>	<u>-</u>	<u>111,443</u>	<u>1,684,624</u>
Revenue					
Ticket sales	-	-	-	-	1,228,722
Tour presenter fees	-	-	-	-	562,036
Tuition	-	-	-	-	629,716
Rental and other	331	-	-	331	212,124
Net unrealized and realized gains on investments	28,895	-	-	28,895	31,787
Interfund transfer	36,000	-	-	36,000	-
Total revenue	<u>65,226</u>	<u>-</u>	<u>-</u>	<u>65,226</u>	<u>2,664,385</u>
Net assets released from restriction					
Expiration of time and purpose restrictions	121,778	(121,778)	-	-	-
Total revenue, gains, and other support	<u>197,204</u>	<u>(20,535)</u>	<u>-</u>	<u>176,669</u>	<u>4,349,009</u>
Expenses:					
Program services	381,468	-	-	381,468	3,767,820
Management and general	20,642	-	-	20,642	435,112
Fundraising	42,678	-	-	42,678	382,898
Total expenses	<u>444,788</u>	<u>-</u>	<u>-</u>	<u>444,788</u>	<u>4,585,830</u>
Changes in net assets	(247,584)	(20,535)	-	(268,119)	(236,821)
Net assets at beginning of year	<u>6,754,600</u>	<u>226,325</u>	<u>100,000</u>	<u>7,080,925</u>	<u>8,047,229</u>
Net assets at end of year	<u>\$ 6,507,016</u>	<u>\$ 205,790</u>	<u>\$ 100,000</u>	<u>\$ 6,812,806</u>	<u>\$ 7,810,408</u>

See accompanying notes to financial statements.

DALLAS CHILDREN'S THEATER, INC.

STATEMENT OF ACTIVITIES

Year ended August 31, 2016

	Operations			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Support				
Foundation	\$ 259,783	\$ 4,000	\$ -	\$ 263,783
Corporation	440,392	20,000	-	460,392
Individuals	203,209	15,000	-	218,209
Special events, net of direct expenses of \$141,256 and including in-kind of \$67,319	186,647	-	-	186,647
In-kind contributions	58,578	-	-	58,578
Grants				
Government grants	17,000	170,222	-	187,222
Restricted grant - Crystal Charity Ball	-	474,400	-	474,400
Total support	<u>1,165,609</u>	<u>683,622</u>	<u>-</u>	<u>1,849,231</u>
Revenue				
Ticket sales	1,217,101	-	-	1,217,101
Tour presenter fees	432,381	-	-	432,381
Tuition	595,881	-	-	595,881
Rental and other	269,449	-	-	269,449
Net unrealized and realized gains on investments	1,131	-	-	1,131
Interfund transfer	(66,500)	-	-	(66,500)
Total revenue	<u>2,449,443</u>	<u>-</u>	<u>-</u>	<u>2,449,443</u>
Net assets released from restriction				
Expiration of time and purpose restrictions	446,961	(446,961)	-	-
Total revenue, gains, and other support	<u>4,062,013</u>	<u>236,661</u>	<u>-</u>	<u>4,298,674</u>
Expenses:				
Program services	3,141,335	-	-	3,141,335
Management and general	431,332	-	-	431,332
Fundraising	370,599	-	-	370,599
Total expenses	<u>3,943,266</u>	<u>-</u>	<u>-</u>	<u>3,943,266</u>
Changes in net assets	118,747	236,661	-	355,408
Net assets at beginning of year	<u>342,203</u>	<u>258,693</u>	<u>10,000</u>	<u>610,896</u>
Net assets at end of year	<u>\$ 460,950</u>	<u>\$ 495,354</u>	<u>\$ 10,000</u>	<u>\$ 966,304</u>

See accompanying notes to financial statements.

DALLAS CHILDREN'S THEATER, INC.
STATEMENT OF ACTIVITIES (continued)

Year ended August 31, 2016

	Capital			Total	Total Funds
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue, gains, and other support:					
Support					
Foundation	\$ -	\$ -	\$ -	\$ -	\$ 263,783
Corporation	-	85,000	-	85,000	545,392
Individuals	-	50	-	50	218,259
Special events	-	-	-	-	186,647
In-kind contributions	-	-	-	-	58,578
Grants					
Government grants	-	-	-	-	187,222
Restricted grant - Crystal Charity Ball	-	-	-	-	474,400
Total support	-	85,050	-	85,050	1,934,281
Revenue					
Ticket sales	-	-	-	-	1,217,101
Tour presenter fees	-	-	-	-	432,381
Tuition	-	-	-	-	595,881
Rental and other	263	-	-	263	269,712
Net unrealized and realized gains on investments	7,855	-	-	7,855	8,986
Interfund transfer	66,500	-	-	66,500	-
Total revenue	74,618	-	-	74,618	2,524,061
Net assets released from restriction					
Expiration of time and purpose restrictions	90,459	(90,459)	-	-	-
Total revenue, gains, and other support	165,077	(5,409)	-	159,668	4,458,342
Expenses:					
Program services	329,570	-	-	329,570	3,470,905
Management and general	17,335	-	-	17,335	448,667
Fundraising	49,920	-	-	49,920	420,519
Total expenses	396,825	-	-	396,825	4,340,091
Changes in net assets	(231,748)	(5,409)	-	(237,157)	118,251
Net assets at beginning of year	6,986,348	231,734	100,000	7,318,082	7,928,978
Net assets at end of year	<u>\$ 6,754,600</u>	<u>\$ 226,325</u>	<u>\$ 100,000</u>	<u>\$ 7,080,925</u>	<u>\$ 8,047,229</u>

See accompanying notes to financial statements.

DALLAS CHILDREN'S THEATER, INC.

STATEMENTS OF CASH FLOWS

	Year Ended August 31,	
	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (236,821)	\$ 118,251
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	312,824	316,784
Amortization	2,750	5,500
Net unrealized and realized gains on investments	(31,787)	(8,986)
Donated securities	-	(18,586)
Donated artwork	(10,200)	-
Discount (recovery) on pledges receivable	(139)	461
Loss on disposal of assets	78,721	-
Bad debt recovery	-	685
Contributions restricted for investment in capital assets	(111,243)	(141,050)
Changes in net assets and liabilities:		
Pledges receivable	(53,729)	115,778
Prepaid expenses and other assets	21,658	(37,644)
Accounts payable	(10,031)	5,105
Accrued expenses	130	(28,928)
Deferred revenue	(26,870)	110,224
Net cash provided by (used in) operating activities	(64,737)	437,594
Cash flows from investing activities:		
Sale (purchase) of certificates of deposit	270,328	(320,301)
Change in restricted cash	995	(116)
Proceeds from sale of donated securities	-	18,930
Purchases of fixed assets	(60,440)	(43,192)
Net cash provided by (used in) investing activities	210,883	(344,679)
Cash flows from financing activities:		
Contributions restricted for investment in capital assets	111,243	141,050
Principal payments on notes payable	(68,124)	(65,733)
Net cash provided by financing activities	43,119	75,317
Net increase in cash and cash equivalents	189,265	168,232
Cash and cash equivalents at beginning of year	819,328	651,096
Cash and cash equivalents at end year	\$ 1,008,593	\$ 819,328
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 22,674	\$ 45,834

See accompanying notes to financial statements.

DALLAS CHILDREN'S THEATER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2017

	Program Services	Management and General	Fundraising	Total
Operations				
Salaries - staff	\$ 687,360	\$ 267,912	\$ 237,191	\$ 1,192,463
Professional services - artistic	542,161	-	-	542,161
Salaries - artistic	434,317	-	-	434,317
Royalties and commissions	194,296	-	-	194,296
Travel	193,526	6,777	1,269	201,572
Supplies and materials	177,132	9,992	1,984	189,108
Building expense	134,588	13,612	7,650	155,850
Legal and professional	209,631	15,357	2,583	227,571
Advertising	187,761	-	-	187,761
Fringe benefits	145,528	34,924	22,868	203,320
Payroll taxes	113,233	26,719	20,153	160,105
Utilities	74,710	4,060	2,436	81,206
Printing and publications	75,715	462	13,875	90,052
Insurance	53,081	2,680	1,608	57,369
Postage and shipping	22,104	7,568	5,788	35,460
Bank and credit card charges	32,479	3,108	10,881	46,468
Depreciation	21,503	861	516	22,880
Telephone	6,699	6,669	3,334	16,702
Store	36,121	-	-	36,121
Dues and subscriptions	5,343	13,465	1,405	20,213
Artistic and audience development	32,110	-	-	32,110
Miscellaneous	3,200	12	-	3,212
Rents	3,754	-	-	3,754
Donor recognition	-	-	579	579
Bad debt	-	-	6,100	6,100
Interest	-	292	-	292
Total functional expense for Operations	<u>3,386,352</u>	<u>414,470</u>	<u>340,220</u>	<u>4,141,042</u>
Capital				
Depreciation	266,749	14,497	8,698	289,944
Interest	40,646	2,209	1,325	44,180
Salaries - staff	-	-	28,800	28,800
Maintenance and Repairs	-	-	-	-
Supplies	-	-	393	393
Amortization	1,650	-	1,100	2,750
Loss on disposal of assets	72,423	3,936	2,362	78,721
Total functional expense for Capital	<u>381,468</u>	<u>20,642</u>	<u>42,678</u>	<u>444,788</u>
Total functional expenses	<u>\$ 3,767,820</u>	<u>\$ 435,112</u>	<u>\$ 382,898</u>	<u>\$ 4,585,830</u>

See accompanying notes to financial statements.

DALLAS CHILDREN'S THEATER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2016

	Program Services	Management and General	Fundraising	Total
Operations				
Salaries - staff	\$ 679,327	\$ 275,495	\$ 241,795	\$ 1,196,617
Professional services - artistic	483,806	-	-	483,806
Salaries - artistic	339,127	-	-	339,127
Royalties and commissions	182,308	-	-	182,308
Travel	151,113	7,859	851	159,823
Supplies and materials	220,336	9,202	1,825	231,363
Building expense	161,072	14,125	11,369	186,566
Legal and professional	179,346	14,648	9,158	203,152
Advertising	194,912	-	-	194,912
Fringe benefits	114,236	41,421	32,846	188,503
Payroll taxes	103,077	28,600	21,467	153,144
Utilities	79,667	4,330	2,598	86,595
Printing and publications	63,427	956	9,883	74,266
Insurance	44,488	2,214	1,328	48,030
Postage and shipping	24,184	6,784	7,896	38,864
Bank and credit card charges	20,900	4,306	21,209	46,415
Depreciation	17,932	667	400	18,999
Telephone	6,295	6,295	3,148	15,738
Store	36,494	-	-	36,494
Dues and subscriptions	2,084	14,282	1,425	17,791
Artistic and audience development	33,868	-	-	33,868
Miscellaneous	301	(114)	561	748
Rents	3,035	-	-	3,035
Donor recognition	-	-	2,840	2,840
Interest	-	262	-	262
Total functional expense for Operations	3,141,335	431,332	370,599	3,943,266
Capital				
Depreciation	273,962	14,889	8,934	297,785
Interest	41,711	2,267	1,360	45,338
Salaries - staff	-	-	37,810	37,810
Maintenance and Repairs	3,295	179	107	3,581
Supplies	7,302	-	194	7,496
Amortization	3,300	-	2,200	5,500
Bad debt expense	-	-	(685)	(685)
Total functional expense for Capital	329,570	17,335	49,920	396,825
Total functional expenses	\$ 3,470,905	\$ 448,667	\$ 420,519	\$ 4,340,091

See accompanying notes to financial statements.

DALLAS CHILDREN’S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2017 and 2016

A. Nature of Activities

Dallas Children’s Theater, Inc. (the “Organization”), is a nonprofit organization incorporated under the laws of the State of Texas in 1984. The Organization is dedicated to providing professional quality theater to children and their families, especially to those who would not otherwise have an opportunity to experience live theater. The Organization’s principal activities include theater season productions, operation of a theatrical school, performances for children with special needs, and several educational extension programs in Dallas, Texas.

The Organization also tours nationally, performing in community facilities. The Organization’s support comes from tuition and ticket sales as well as contributions from individuals, foundations, and corporations.

The Organization owns the land and building upon which the theater is located. It is also responsible for and has consistently funded through donations and grants all improvements and other related land and building expenditures. In addition, the theater property is located in an increasingly developing area which has changed the neighborhood positively since the theater’s inception.

B. Summary of Significant Accounting Policies

A summary of the Organization’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Basis of Accounting

The Organization’s financial statements are presented on the accrual basis of accounting in accordance with GAAP.

GAAP requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets — net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Basis of Accounting – continued

Temporarily restricted net assets — net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets — net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Organization.

The Organization uses fund accounting to keep track of certain types of activities. Two funds are currently employed: Operations and Capital. The Operations fund represents the normal operating activity of the Organization. The Capital fund represents the amounts for capital development, including exterior enhancements, interior enhancements, property, and organizational capacity.

Gifts of long lived assets with explicit restrictions and gifts of cash that must be used to acquire long-lived assets are reported as temporarily restricted support. The Organization reports expirations of such donor restrictions when the donated assets are placed in service, unless donor restrictions indicate otherwise. Income from permanently restricted net assets is recorded as temporarily restricted until appropriated for expenditure unless otherwise restricted by the donor.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At August 31, 2017 and 2016, the Organization had no such investments. The Organization maintains deposits primarily in two financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Organization has not experienced any losses related to amounts in excess of FDIC limits.

Contributions and Pledges Receivable

Unconditional promises to give or pledges receivables that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is included in contribution revenue. Contributions are recorded as revenue at the time an unconditional right to the gift has been established and the proceeds are measurable in amount. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (*continued*)

B. Summary of Significant Accounting Policies – continued

Trusts, Legacies, and Bequests

The Organization is the beneficiary under a will agreement, the total realizable amount of which cannot presently be determined. Such amounts are excluded from the accompanying financial statements until clear title is established and the ultimate realizable amount is reasonably determinable.

Investments

Investments with readily determinable fair values are to be stated at fair value with unrealized gains and losses from fluctuations in market value included in the statement of activities. GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used. The three levels of the fair value hierarchy are described below:

- Level 1 — observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.
- Level 2 — observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.
- Level 3 — inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

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.

Certificates of Deposit: reported as Level 1 are determined by reference to quoted market prices.

Annuity Contract: valued based on generally observable inputs including yield curves, externally sourced credit spreads, and last trading prices. The annuity contract is classified within Level 2 of the valuation hierarchy.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Investments – continued

The preceding methods described may produce fair value measurements that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization 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.

Fair Value of Financial Instruments

The Organization calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this information in the notes to financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of cash equivalents, pledges receivable, prepaid expenses, and other assets, accounts payable, and accrued expenses approximate the carrying amounts due to the relatively short-term maturity of these instruments. The carrying value of the notes payable also approximate fair value since they bear market interest rates. None of these instruments are held for trading purposes.

Fixed Assets

Fixed assets, other than land, are stated at cost less accumulated depreciation. Land is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets for financial reporting purposes. The Organization capitalizes expenditures for fixed assets in excess of \$5,000 and with an estimated useful life greater than one year. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the accompanying statement of activities of the respective period. The estimated useful lives of land improvements range from 5 to 20 years, the estimated useful lives of building and improvements range from 7 to 40 years, and the estimated useful lives of furniture, fixtures, and equipment range from 3 to 10 years.

Contributed Assets and Services

Contributed assets are reflected as contributions in the accompanying financial statements at their estimated value at date of receipt. Contributed services are reflected in the financial statements at the fair value of the services received if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that help the Organization's programs. The value of this contributed time is not reflected in the accompanying financial statements because it does not meet the above criteria.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Bad Debts

Management periodically reviews pledges receivable on an account by account basis. Management considers the Organization's past history with the contributor and the size of the account in evaluating the reserve requirements for potentially uncollectible amounts. Accounts are written off when management determines that collection efforts will not be successful.

Deferred Revenue

Revenue from pre-sold season tickets, tuition, and tours is deferred and recognized in the year in which the performance or event to which they relate occurs.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising costs for the years ended August 31, 2017 and 2016, were approximately \$188,000 and \$195,000, respectively.

Endowment Funds

The Organization operates under an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") since the Texas State Legislature enacted UPMIFA on September 1, 2007 ("TUPMIFA"). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's management has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the Organization classifies the original value of all endowment gifts as permanently restricted net assets. Accumulated net earnings on endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in accordance with any applicable donor designations and in a manner consistent with the standard of prudence prescribed by the UPMIFA. The Organization had no accumulated earnings on endowment funds for the years ended August 31, 2017 and 2016, as the Organization expends earnings on the endowment funds for use in operations in the year earned.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies – continued

Endowment Funds – continued

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

The Organization's primary investment objectives are growth with income and preservation of capital. Management defines risk as the probability of not meeting these objectives. Accordingly, endowment assets are invested in a manner that is intended to minimize risk.

Federal Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), except to the extent that they have unrelated business income. There was no material unrelated business income reflected in the accompanying financial statements for the years ended August 31, 2017 and 2016. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

GAAP prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain income tax positions taken or expected to be taken in income tax returns. Management believes that it has not taken a tax position that, if challenged, would have a material effect on the Organization's financial statements. The Organization files Form 990 in the United States federal jurisdiction and no tax returns are currently under examination by any tax authorities.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

C. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following as of August 31:

	<u>2017</u>	<u>2016</u>
Capital	\$ 180,882	\$ 191,509
Operating	603,200	559,604
Opera and Artists Fund	18,055	18,023
Purpose Restricted	206,456	50,192
	<u>\$ 1,008,593</u>	<u>\$ 819,328</u>

Restricted cash and cash equivalents consisted of the following as of August 31:

	<u>2017</u>	<u>2016</u>
Actor's Equity Association Bond	\$ 15,242	\$ 16,237
	<u>\$ 15,242</u>	<u>\$ 16,237</u>

Some of the Organization's actors are members of the Actors' Equity Association. The Organization is required to maintain a separate account for the Actors' Equity Association Bond. Periodically, the amount required to be maintained is re-determined by the Association.

D. Pledges Receivable, Net

Discounted pledges receivable are amounts that comprise the following unconditional promises to give at August 31:

	<u>2017</u>	<u>2016</u>
Less than 1 year	\$ 156,329	\$ 117,322
1-5 years	55,000	40,000
Total pledges receivable	211,329	157,322
Allowance for uncollectible pledges	-	-
Unamortized discount to adjust pledges to net present value	(507)	(368)
Net pledges receivable	<u>\$ 210,822</u>	<u>\$ 156,954</u>

The pledge discount was computed using the risk-free treasury interest rates 0.93% for both of the years ended August 31, 2017 and 2016. Pledges receivable at August 31, 2017 and 2016, consist of \$119,000 due from 3 donors and \$115,000 due from 4 donors, respectively, and approximately \$17,200 and \$32,300 in pledges receivable from related parties, respectively.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

D. Pledges Receivable, Net – continued

Pledges receivable are from donors located primarily in the Dallas area. Therefore, collection of pledges is subject to economic conditions in the area. Pledges restricted by time or donor purposes are reported as temporarily restricted in the financial statements.

As of August 31, 2017, there were no outstanding conditional promises to give.

E. Investments

The Organization holds an investment in an annuity contract held by a master custodian and managed by Merrill Lynch.

Investments in annuity contracts consist of the following at August 31:

	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Fair Value (Level 2)</u>
2017			
Endowment – investment in annuity	<u>\$ 110,000</u>	<u>\$ 166,917</u>	<u>\$ 276,917</u>
2016			
Endowment – investment in annuity	<u>\$ 110,000</u>	<u>\$ 135,130</u>	<u>\$ 245,130</u>

Investment income for the years ended August 31, 2017 and 2016, consists of unrealized gains of \$31,787 and \$8,642, respectively.

At August 31, 2017 and 2016, the Organization had investments in certificates of deposit valued at \$49,973 and \$320,301, respectively. As of August 31, 2017, the Organization held one certificate of deposit purchased in March 2017 that matures in April 2018 and bears interest at 1.25%. The certificates of deposit at August 31, 2016, were purchased in May 2016, matured between November 2016 and August 2017, and had rates of interest between 0.4% and 0.5%.

F. Contributed Assets and Services

The Organization receives in-kind contributions from various donors. The estimated values of such in-kind contributions are as follows for the years ended August 31:

	<u>2017</u>	<u>2016</u>
Special events	\$ 76,818	\$ 67,319
Miscellaneous	56,390	48,578
Sponsorships	<u>10,000</u>	<u>10,000</u>
	<u>\$ 143,208</u>	<u>\$ 125,897</u>

DALLAS CHILDREN’S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

F. Contributed Assets and Services – continued

The Organization has recognized the amounts indicated above as in-kind or special events contributions and expenses, as appropriate, in the accompanying financial statements.

G. Endowments

Donor-restricted endowment activity is as follows for the years ended August 31:

	<u>2017</u>	<u>2016</u>
Operating		
Endowments beginning of year	\$ 10,000	\$ 10,000
Transfers to (from) endowment funds	-	-
Contributions to endowment funds	-	-
	<u> </u>	<u> </u>
Endowments end of year	<u>\$ 10,000</u>	<u>\$ 10,000</u>
Capital		
Endowments beginning of year	\$ 100,000	\$ 100,000
Transfers to (from) endowment funds	-	-
Contributions to endowment funds	-	-
	<u> </u>	<u> </u>
Endowments end of year	<u>\$ 100,000</u>	<u>\$ 100,000</u>

In 2015 the Organization established an endowment fund with the Dallas Foundation (the “Foundation”). The Foundation is a public charity that holds millions in trust for the public. The Foundation was granted variance power over these funds and they are under the ultimate control of the Foundation’s Board of Governors. During the years ended August 31, 2017 and 2016, no donor-restricted endowment contributions were received by the Organization.

Due to the Foundation being granted variance power, the funds are not reflected in the financial statements of the Organization. As of August 31, 2017, the estimated value of the endowment fund held by the Foundation approximated \$163,000.

The Organization views its relationship with the Dallas Foundation as a long-term strategic alliance to create a substantial endowment.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

H. Net Assets

Unrestricted net assets are available for the following purposes as designated by the board of trustees at August 31:

	<u>2017</u>	<u>2016</u>
Designated for specific purpose:		
Artwork	\$ 50,000	\$ 50,000
Capital	30,000	30,000
Artistic development	44,630	59,064
Audience development	38,360	56,037
Undesignated funds:		
Operations	460,543	265,849
Capital	6,507,016	6,754,600
	<u>\$ 7,130,549</u>	<u>\$ 7,215,550</u>

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

	<u>2017</u>	<u>2016</u>
Operations (time restricted)	\$ 89,585	\$ 106,838
Operations (purpose restricted)	256,429	370,493
Opera Fund	18,055	18,023
Capital Fund (net of discount)	205,790	226,325
	<u>\$ 569,859</u>	<u>\$ 721,679</u>

During the years ended August 31, 2017 and 2016, the Organization recognized revenue of \$0 and \$474,400, respectively, from a multi-year donor restricted grant. These amounts are included in the accompanying statements of activities as restricted grant – Crystal Charity Ball. The grant is restricted for the purpose of funding a specific program for fiscal years 2016 through 2018. In accordance with GAAP, the grant funds were recognized as revenue in the period in which the related conditions under the grant agreement were met. As of August 31, 2017 and 2016, the remaining unexpended funds under the grant that are purpose restricted are \$248,934 and \$364,888, respectively, and are included in temporarily restricted net assets. These temporarily restricted net assets will be released from restriction and recognized as expense in fiscal year 2018 as grant expenditures are made.

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

	<u>2017</u>	<u>2016</u>
Endowments – Capital	\$ 100,000	\$ 100,000
Endowment – Operations	10,000	10,000
	<u>\$ 110,000</u>	<u>\$ 110,000</u>

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

H. Net Assets – continued

Investment income and capital appreciation may be used at the direction of the Finance Committee and the Executive Board.

I. Notes Payable

The Organization has the following notes payable at August 31:

	2017	2016
Note payable to a bank with a line-of-credit up to \$1,200,000, collateralized by building and assignment of all rents, interest rate at 5.08%, interest payable monthly beginning June 2012 with principal and interest payments payable monthly beginning June 2013, and final payment due May 2022.	\$ 900,146	\$ 963,006
Note payable to a bank with a line-of-credit up to \$300,000, collateralized by building and assignment of all rents, interest rate at the prime rate plus 1.00% (4.25% at August 31, 2017), interest payable monthly beginning June 2012 with outstanding principal due May 2018.	-	-
Note payable to a lender in the original amount of \$26,320, collateralized by vehicle, interest rate at 1.90%, interest and principal payments payable monthly with final payment due November 2018.	6,141	11,405
Total notes payable	906,287	974,411
Less current portion	(69,637)	(68,346)
Total long-term notes payable	\$ 836,650	\$ 906,065

Maturities of long-term notes payable are as follows for the year ended August 31:

2018	\$ 69,637
2019	68,449
2020	71,228
2021	75,089
2022	621,884
Thereafter	-
	\$ 906,287

Interest expense was \$44,472 and \$45,600 for the years ended August 31, 2017 and 2016, respectively.

DALLAS CHILDREN’S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

J. Rental Agreements

The Organization rented its facilities to a local church for a period of three years commencing on August 1, 2013, with automatic renewal for an additional one year period unless the Organization receives at least a sixty day notice of non-renewal. The Organization rents land usage for a cell tower under a five year cancelable agreement dated May 2002, renewable for nine additional five year terms, and cancellable by either party with a sixty day notice prior to the renewal date. The Organization also rents the facility to various other entities. Rental income for the various activities is reflected in rental and other income in the accompanying financial statements.

At August 31, 2017, estimated future minimum payments to be received under non-cancelable operating leases with initial term of one year or more consisted of the following:

Year ending August 31:	
2018	\$ 84,276
2019	84,276
2020	84,276
2021	84,276
2022	<u>73,907</u>
	<u>\$ 411,011</u>

K. Risks and Economic Outlook

The Organization operates in Dallas and, as such, is dependent upon the community’s interest in children’s theater and the willingness and ability of donors in the area to continue supporting the Organization. The ability of the Organization’s donors to continue giving amounts comparable with prior years may be dependent, among other things, upon current and future overall economic conditions and the continued deductibility for income tax purposes of donations to the Organization. Management has responded strategically to the economic downturn of the periods with reductions in staff and other cost reductions, increases in prices, reducing the number of productions, and continuing their major gifts program to support production.

L. Related Party Transactions

A member that serves on the Organization’s board of trustees is an officer for a service company that provides maintenance services to the Organization. The Organization incurred approximately \$37,000 and \$38,000 with the company for each of the years ended August 31, 2017 and 2016, respectively. At August 31, 2017 and 2016, approximately \$300 and \$100, respectively, was payable to the company.

DALLAS CHILDREN'S THEATER, INC.

NOTES TO FINANCIAL STATEMENTS *(continued)*

M. Subsequent Events

In preparing the financial statements, the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through December 13, 2017, the date the financial statements were available for issuance.