

**DALLAS CHILDREN'S THEATER, INC.**

**FINANCIAL STATEMENTS**

**Year Ended August 31, 2019  
with Report of Independent Auditors**

**DALLAS CHILDREN’S THEATER, INC.**

**FINANCIAL STATEMENTS**

**Year Ended August 31, 2019**

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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 statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### 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, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with GAAP.



Dallas, Texas  
December 10, 2019

**DALLAS CHILDREN'S THEATER, INC.**

**STATEMENT OF FINANCIAL POSITION**

As of August 31, 2019

	<b>Operations</b>	<b>Capital</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 1,092,811	\$ 143,560	\$ 1,236,371
Restricted cash and cash equivalents	18,974	-	18,974
Pledges receivable	168,358	-	168,358
Prepaid expenses and other assets	174,866	20,700	195,566
Total current assets	1,455,009	164,260	1,619,269
Other assets			
Discounted pledges receivable, net	24,770	-	24,770
Investments	29,385	293,527	322,912
Other assets, net of amortization of \$55,000	-	18,279	18,279
Total other assets	54,155	311,806	365,961
Fixed assets			
Land	-	2,600,000	2,600,000
Land improvements	55,700	1,286,275	1,341,975
Building and improvements	183,004	6,199,988	6,382,992
Furniture, fixtures, and equipment	340,040	679,440	1,019,480
Less accumulated depreciation	(401,034)	(3,740,745)	(4,141,779)
Net fixed assets	177,710	7,024,958	7,202,668
Total assets	\$ 1,686,874	\$ 7,501,024	\$ 9,187,898
<b>Liabilities and Net Assets</b>			
Current liabilities			
Accounts payable	\$ 94,165	\$ 94	\$ 94,259
Accrued expenses	61,852	1,795	63,647
Deferred revenue	372,894	-	372,894
Notes payable	-	86,764	86,764
Total current liabilities	528,911	88,653	617,564
Notes payable, net of current portion	-	375,954	375,954
Total liabilities	528,911	464,607	993,518
Commitments and contingencies			
Net assets:			
Without donor restrictions	776,363	6,772,857	7,549,220
With donor restrictions	381,600	263,560	645,160
Total net assets	1,157,963	7,036,417	8,194,380
Total liabilities and net assets	\$ 1,686,874	\$ 7,501,024	\$ 9,187,898

See accompanying notes to financial statements.

**DALLAS CHILDREN'S THEATER, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended August 31, 2019**

	<b>Operations</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue, gains, and other support:			
Support			
Foundation	\$ 340,395	\$ 325,075	\$ 665,470
Corporation	567,075	-	567,075
Individuals	271,807	36,206	308,013
Special events, net of direct expenses of \$204,439 and including in-kind of \$81,604	236,019	-	236,019
In-kind contributions	54,679	-	54,679
Grants			
Government grants	287,222	-	287,222
Total support	1,757,197	361,281	2,118,478
Revenue (loss)			
Ticket sales	954,253	-	954,253
Tour presenter fees	433,959	-	433,959
Tuition	552,531	-	552,531
Rental and other	195,749	-	195,749
Net unrealized loss on investment	(24)	-	(24)
Interfund transfer	(36,000)	-	(36,000)
Total revenue	2,100,468	-	2,100,468
Net assets released from restriction			
Expiration of time and purpose restrictions	254,762	(254,762)	-
Total revenue, gains, and other support	4,112,427	106,519	4,218,946
Expenses:			
Program services			
Production	2,035,994	-	2,035,994
Tours	592,870	-	592,870
Education	671,130	-	671,130
Total program services	3,299,994	-	3,299,994
Supporting services			
Management and general	427,567	-	427,567
Fundraising	369,081	-	369,081
Total supporting services	796,648	-	796,648
Total expenses	4,096,642	-	4,096,642
Changes in net assets	15,785	106,519	122,304
Net assets at beginning of year	760,578	275,081	1,035,659
Net assets at end of year	\$ 776,363	\$ 381,600	\$ 1,157,963

See accompanying notes to financial statements.

**DALLAS CHILDREN'S THEATER, INC.**  
**STATEMENT OF ACTIVITIES (continued)**  
**Year Ended August 31, 2019**

	<b>Capital</b>			<b>Total Funds</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	
Revenue, gains, and other support:				
Support				
Foundation	\$ -	\$ 372,850	\$ 372,850	\$ 1,038,320
Corporation	100,000	11,000	111,000	678,075
Individuals	-	49,100	49,100	357,113
Special events	-	-	-	236,019
In-kind contributions	-	-	-	54,679
Government grants	200,000	-	200,000	487,222
Total support	<u>300,000</u>	<u>432,950</u>	<u>732,950</u>	<u>2,851,428</u>
Revenue (loss)				
Ticket sales	-	-	-	954,253
Tour presenter fees	-	-	-	433,959
Tuition	-	-	-	552,531
Rental and other	275	-	275	196,024
Net unrealized loss on investment	(205)	-	(205)	(229)
Interfund transfer	36,000	-	36,000	-
Total revenue	<u>36,070</u>	<u>-</u>	<u>36,070</u>	<u>2,136,538</u>
Net assets released from restriction				
Expiration of time and purpose restrictions	401,163	(401,163)	-	-
Total revenue, gains, and other support	<u>737,233</u>	<u>31,787</u>	<u>769,020</u>	<u>4,987,966</u>
Expenses:				
Program services				
Production	208,494	-	208,494	2,244,488
Tours	13,768	-	13,768	606,638
Education	57,045	-	57,045	728,175
Total program expenses	<u>279,307</u>	<u>-</u>	<u>279,307</u>	<u>3,579,301</u>
Supporting services				
Management and general	15,370	-	15,370	442,937
Fundraising	33,941	-	33,941	403,022
Total supporting services	<u>49,311</u>	<u>-</u>	<u>49,311</u>	<u>845,959</u>
Total expenses	<u>328,618</u>	<u>-</u>	<u>328,618</u>	<u>4,425,260</u>
Changes in net assets	408,615	31,787	440,402	562,706
Net assets at beginning of year	<u>6,364,242</u>	<u>231,773</u>	<u>6,596,015</u>	<u>7,631,674</u>
Net assets at end of year	<u>\$ 6,772,857</u>	<u>\$ 263,560</u>	<u>\$ 7,036,417</u>	<u>\$ 8,194,380</u>

See accompanying notes to financial statements.

**DALLAS CHILDREN'S THEATER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended August 31, 2019

	Program Services			Total Program Services	Supporting Services			Total
	Production	Tours	Education		Management and General	Fundraising	Total Supporting Services	
<b>Operations</b>								
Salaries - staff	\$ 436,420	\$ 76,562	\$ 253,845	\$ 766,827	\$ 289,094	\$ 268,557	\$ 557,651	\$ 1,324,478
Professional services - artistic	252,316	54,237	197,189	503,740	-	-	-	503,740
Salaries - artistic	330,860	78,451	3,750	413,060	-	-	-	413,060
Legal and professional	75,322	92,923	14,863	183,107	15,646	6,471	22,117	205,224
Advertising	201,986	20,093	17,563	239,641	-	644	644	240,285
Supplies and materials	140,608	12,824	8,880	162,311	9,871	2,692	12,563	174,874
Travel	15,319	166,311	1,528	183,159	5,407	382	5,789	188,948
Building expense	135,010	7,913	30,873	173,798	15,346	11,218	26,564	200,362
Fringe benefits	87,254	3,330	32,687	123,272	33,786	26,031	59,817	183,089
Payroll taxes	68,440	14,939	33,514	116,891	29,385	21,815	51,200	168,091
Royalties and commissions	50,237	45,114	2,104	97,456	-	-	-	97,456
Utilities	54,882	3,659	14,635	73,177	3,977	2,386	6,363	79,540
Printing and publications	47,518	4,911	27,777	80,206	145	6,854	6,999	87,205
Insurance	40,065	6,995	10,684	57,744	2,903	1,742	4,645	62,389
Bank and credit card charges	21,789	1,362	4,085	27,237	3,042	9,078	12,120	39,357
Artistic and audience development	14,115	-	-	14,115	-	-	-	14,115
Store	24,563	-	-	24,562	-	-	-	24,562
Postage and shipping	10,618	1,003	11,225	22,845	7,090	3,758	10,848	33,693
Depreciation	16,452	1,569	4,387	22,409	1,192	715	1,907	24,316
Telephone	5,036	336	1,343	6,715	6,715	3,357	10,072	16,787
Dues and subscriptions	790	304	148	1,242	3,926	1,719	5,645	6,887
Rents	5,862	-	-	5,862	-	-	-	5,862
Donor recognition	-	-	-	-	-	1,662	1,662	1,662
Miscellaneous	532	34	50	618	-	-	-	618
Interest	-	-	-	-	42	-	42	42
Total functional expense for Operations	<u>2,035,994</u>	<u>592,870</u>	<u>671,130</u>	<u>3,299,994</u>	<u>427,567</u>	<u>369,081</u>	<u>796,648</u>	<u>4,096,642</u>
<b>Capital</b>								
Depreciation	187,256	12,484	49,935	249,674	13,569	8,142	21,711	271,385
Interest	19,264	1,284	5,137	25,686	1,396	838	2,234	27,920
Salaries - staff	-	-	-	-	-	9,600	9,600	9,600
Maintenance and Repairs	1,974	-	1,973	3,947	215	128	343	4,290
Supplies	-	-	-	-	190	538	728	728
Professional Fees	-	-	-	-	-	14,603	14,603	14,603
Miscellaneous	-	-	-	-	-	92	92	92
Total functional expense for Capital	<u>208,494</u>	<u>13,768</u>	<u>57,045</u>	<u>279,307</u>	<u>15,370</u>	<u>33,941</u>	<u>49,311</u>	<u>328,618</u>
Total functional expenses	<u>\$ 2,244,488</u>	<u>\$ 606,638</u>	<u>\$ 728,175</u>	<u>\$ 3,579,301</u>	<u>\$ 442,937</u>	<u>\$ 403,022</u>	<u>\$ 845,959</u>	<u>\$ 4,425,260</u>

See accompanying notes to financial statements.

**DALLAS CHILDREN'S THEATER, INC.**

**STATEMENT OF CASH FLOWS**

**Year Ended August 31, 2019**

**Cash flows from operating activities:**

Change in net assets	\$ 562,706
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	295,701
Net unrealized loss on investment	229
Donated artwork	(180)
Discount on pledges receivable	46
Contributions restricted for investment in capital assets	(432,950)
Changes in net assets and liabilities:	
Pledges receivable	(23,791)
Prepaid expenses and other assets	(36,491)
Accounts payable	43,002
Accrued expenses	10,758
Deferred revenue	39,023
Net cash provided by operating activities	<u>458,053</u>

**Cash flows from investing activities:**

Change in restricted cash	(10)
Purchases of fixed assets	(337,771)
Net cash used in investing activities	<u>(337,781)</u>

**Cash flows from financing activities:**

Contributions restricted for investment in capital assets	432,950
Principal payments on notes payable	(371,656)
Net cash provided by financing activities	<u>61,294</u>

Net increase in cash and cash equivalents	181,566
Cash and cash equivalents at beginning of year	<u>1,054,805</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,236,371</u></u>

**Supplemental disclosure of cash flow information:**

Cash paid during the year for interest	<u><u>\$ 29,397</u></u>
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See accompanying notes to financial statements.



# DALLAS CHILDREN'S THEATER, INC.

## NOTES TO FINANCIAL STATEMENTS

August 31, 2019

### 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions — net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions 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**

Net assets with donor restrictions — 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 or net assets that are required to be maintained in perpetuity by the Organization. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

**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, 2019, 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 support revenue. Contributions are recorded as support 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.

**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.

## DALLAS CHILDREN'S THEATER, INC.

### NOTES TO FINANCIAL STATEMENTS (*continued*)

#### **B. Summary of Significant Accounting Policies – continued**

##### **Investments – continued**

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.

- *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.

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.

**DALLAS CHILDREN'S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Fair Value of Financial Instruments – continued**

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.

**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.

**DALLAS CHILDREN'S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Functional Allocation of Expenses**

Program services include expenses directly attributable to providing services to the Organization's patrons. Supporting activities include those expenses not directly identifiable with any specific function, but provide for the overall support and direction of the Organization. Directly identifiable expenses are charged to either program services or supporting activities. Expenses related to more than one function are allocated to program services or supporting activities based upon estimates of time spent in these activities by the Organization's personnel or by square footage.

**Advertising**

The Organization expenses advertising costs as they are incurred. Advertising costs for the year ended August 31, 2019, were approximately \$240,000.

**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 net assets with donor restrictions. Accumulated net earnings on endowment funds are classified as net assets with donor restrictions 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 year ended August 31, 2019, as the Organization expends earnings on the endowment funds for use in operations in the year earned.

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,

**DALLAS CHILDREN’S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Endowment Funds – continued**

- 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, 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 year ended August 31, 2019. 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.

**New Accounting Pronouncement**

During 2019 the Organization adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

**C. Cash and Cash Equivalents**

Cash and cash equivalents consisted of the following as of August 31, 2019:

Capital	\$ 143,560
Operating	800,981
Opera and Artists Fund	18,142
Purpose Restricted	273,688
	<hr/>
	\$ 1,236,371
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**DALLAS CHILDREN'S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**C. Cash and Cash Equivalents – continued**

Restricted cash and cash equivalents consisted of the following as of August 31, 2019:

Actor's Equity Association Bond	\$ 18,974
	<u>\$ 18,974</u>

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

**D. Availability and Liquidity**

The following represents the Organization's financial assets available to meet cash needs for general expenditures within one year of August 31, 2019:

Financial assets, at year end:	
Cash and cash equivalents	\$ 800,981
Pledges receivable	<u>105,492</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 906,473</u>

The Organization is substantially supported by production, tours, and education fees that are not subject to restrictions. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be liquid and available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. The Organization also has a line-of-credit up to \$150,000 available for borrowing.

**E. Pledges Receivable, Net**

Discounted pledges receivable are amounts that comprise the following unconditional promises to give at August 31, 2019:

Less than 1 year	\$ 168,358
1-5 years	<u>25,000</u>
Total pledges receivable	193,358
Allowance for uncollectible pledges	-
Unamortized discount to adjust pledges to net present value	<u>(230)</u>
Net pledges receivable	<u>\$ 193,128</u>

**DALLAS CHILDREN'S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**E. Pledges Receivable, Net – continued**

The pledge discount was computed using the risk-free treasury interest rates 0.93% for the year ended August 31, 2019. Pledges receivable at August 31, 2019, consist of \$155,000 due from 4 donors, and approximately \$1,400 in pledges receivable from related parties.

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 net assets with donor restrictions in the financial statements.

As of August 31, 2019, there were no outstanding conditional promises to give.

**F. Investment**

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

Investment in annuity contract consists of the following at August 31, 2019:

	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Fair Value (Level 2)</u>
Endowment – investment in annuity	<u>\$ 110,000</u>	<u>\$ 212,912</u>	<u>\$ 322,912</u>

Investment income for the year ended August 31, 2019, consists of unrealized loss of \$229.

**G. 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 year ended August 31, 2019:

Special events	\$ 81,604
Miscellaneous	44,679
Sponsorships	<u>10,000</u>
	<u>\$ 136,283</u>

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



**DALLAS CHILDREN’S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**H. Endowments**

Donor-restricted endowment activity is as follows for the year ended August 31, 2019:

<b>Operating</b>	
Endowments beginning of year	\$ 10,000
Transfers to (from) endowment funds	-
Contributions to endowment funds	-
	<hr/>
Endowments end of year	<u>\$ 10,000</u>
<b>Capital</b>	
Endowments beginning of year	\$ 100,000
Transfers to (from) endowment funds	-
Contributions to endowment funds	-
	<hr/>
Endowments end of year	<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 year ended August 31, 2019, 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, 2019, the estimated value of the endowment fund held by the Foundation approximated \$162,000.

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

**I. Net Assets**

Net assets without donor restrictions are available for the following purposes as designated by the board of trustees at August 31, 2019:

Designated for specific purpose:	
Artwork (capital)	\$ 114,876
Artistic development (operations)	9,426
Audience development (operations)	15,570
Undesignated funds:	
Operations	751,367
Capital	<u>6,657,981</u>
	<u>\$ 7,549,220</u>

**DALLAS CHILDREN'S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**I. Net Assets – continued**

Net assets with donor restrictions are available for the following purposes at August 31, 2019:

Operations (time restricted)	\$ 79,770
Operations (purpose restricted)	273,688
Opera Fund	18,142
Capital Fund	163,560
Endowment – Capital	100,000
Endowment – Operations	<u>10,000</u>
	<u>\$ 645,160</u>

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

**J. Notes Payable**

The Organization has the following notes payable at August 31, 2019:

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 4.50%, interest payable monthly beginning June 2012 with principal and interest payments payable monthly beginning June 2013, and final payment due May 2022. \$ 462,718

Note payable to a bank with a line-of-credit up to \$150,000, interest rate at the prime rate plus 1.00% (6.25% at August 31, 2019), interest payable monthly beginning June 2012 with outstanding principal due May 2020. -

Total notes payable	<u>462,718</u>
Less current portion	<u>(86,764)</u>

Total long-term notes payable	<u>\$ 375,954</u>
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On December 12, 2018, the March Family Foundation (“March Foundation”) originated a plan whereby the Organization’s current debt will be completely paid off in three years. The March Foundation has committed to be the lead funder, and the March Foundation has also secured the participation of four additional donors. During the year ended August 31, 2019, the March Foundation made a payment of \$225,000 and the additional donors made combined payments totaling \$69,000. Future gifts from all five entities, and any others, will require the Organization to confirm continued monthly loan payments each year before additional committed gifts are disbursed to the Organization. The agreement requires that after the loan is paid off, the Organization commits to contributing quarterly payments of \$25,000 towards a capital reserve fund for future repairs for the subsequent ten years.

**DALLAS CHILDREN'S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**J. Notes Payable – continued**

Finally, the Organization has agreed to not to use the property as collateral for any loan. Complete details are a part of the March Family Foundation Agreement. As of August 31, 2019, the Organization has continued to make the monthly payments in accordance with the March Family Foundation Agreement.

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

2020	\$ 86,764
2021	90,859
2022	95,255
2023	99,869
2024	89,971
Thereafter	<u>-</u>
	<u>\$ 462,718</u>

Interest expense was \$27,962 for the year ended August 31, 2019.

**K. 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, 2019, 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:	
2020	\$ 84,276
2021	20,076
2022	<u>15,057</u>
	<u>\$ 119,409</u>

**DALLAS CHILDREN'S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**L. 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.

**M. Related Party Transactions**

The Organization had pledges receivable due from board members of approximately \$1,400, which has been included within pledges receivable in the accompanying statement of financial position at August 31, 2019.

**N. Subsequent Events**

In preparing the financial statements, the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through December 10, 2019, the date the financial statements were available for issuance.