

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

**FINANCIAL STATEMENTS**

**Years Ended August 31, 2016 and 2015  
with Report of Independent Auditors**

**DALLAS CHILDREN’S THEATER, INC.**

**FINANCIAL STATEMENTS**

**Years Ended August 31, 2016 and 2015**

**Table of Contents**

Report of Independent Auditors .....	1
Audited Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities .....	4
Statements of Cash Flows.....	8
Statements of Functional Expenses .....	9
Notes to Financial Statements .....	11

## 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, 2016 and 2015, 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, 2016 and 2015, and the results of its activities and its cash flows for the years then ended in conformity with GAAP.



Dallas, Texas  
December 14, 2016

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

As of August 31, 2016

	<b>Operations</b>	<b>Capital</b>	<b>Total</b>
<b>Assets</b>			
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 \$52,250	-	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
<b>Liabilities and Net Assets</b>			
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
Notes payable, net of current portion	6,141	899,924	906,065
Commitments and contingencies			
Net assets:			
Unrestricted	460,950	6,821,100	7,282,050
Temporarily restricted	495,354	159,825	655,179
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 FINANCIAL POSITION**  
**As of August 31, 2015**

	<u>Operations</u>	<u>Capital</u>	<u>Total</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 498,665	\$ 152,431	\$ 651,096
Restricted cash and cash equivalents	16,121	-	16,121
Pledges receivable, net	124,392	60,315	184,707
Interfund receivables	10,736	(10,736)	-
Prepaid expenses and other assets	133,068	700	133,768
Total current assets	<u>782,982</u>	<u>202,710</u>	<u>985,692</u>
Other assets			
Discounted pledges receivable, net	59,447	29,724	89,171
Investments	21,520	214,968	236,488
Other assets, net of amortization of \$46,750	-	8,250	8,250
Total other assets	<u>80,967</u>	<u>252,942</u>	<u>333,909</u>
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	283,871	620,004	903,875
Construction-in-progress	-	34,937	34,937
Less accumulated depreciation	(338,668)	(2,647,062)	(2,985,730)
Net fixed assets	<u>139,332</u>	<u>7,892,797</u>	<u>8,032,129</u>
Total assets	<u>\$ 1,003,281</u>	<u>\$ 8,348,449</u>	<u>\$ 9,351,730</u>
<b>Liabilities and Net Assets</b>			
Current liabilities			
Accounts payable	\$ 46,457	\$ 2,978	\$ 49,435
Accrued expenses	81,432	3,914	85,346
Deferred revenue	247,827	-	247,827
Notes payable	5,264	60,476	65,740
Total current liabilities	<u>380,980</u>	<u>67,368</u>	<u>448,348</u>
Note payable, net of current portion	11,405	962,999	974,404
Commitments and contingencies			
Net assets:			
Unrestricted	342,203	6,986,348	7,328,551
Temporarily restricted	258,693	231,734	490,427
Permanently restricted	10,000	100,000	110,000
Total net assets	<u>610,896</u>	<u>7,318,082</u>	<u>7,928,978</u>
Total liabilities and net assets	<u>\$ 1,003,281</u>	<u>\$ 8,348,449</u>	<u>\$ 9,351,730</u>

See accompanying notes to financial statements.

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

**STATEMENT OF ACTIVITIES**

**Year ended August 31, 2016**

	Operations			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	1,165,609	683,622	-	1,849,231
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	1,131	-	-	1,131
Interfund transfer	(66,500)	-	-	(66,500)
Total revenue	2,449,443	-	-	2,449,443
Net assets released from restriction				
Expiration of time and purpose restrictions	446,961	(446,961)	-	-
Total revenue, gains, and other support	4,062,013	236,661	-	4,298,674
Expenses:				
Program services	3,141,335	-	-	3,141,335
Management and general	431,332	-	-	431,332
Fundraising	370,599	-	-	370,599
Total expenses	3,943,266	-	-	3,943,266
Changes in net assets	118,747	236,661	-	355,408
Net assets at beginning of year	342,203	258,693	10,000	610,896
Net assets at end of year	\$ 460,950	\$ 495,354	\$ 10,000	\$ 966,304

See accompanying notes to financial statements.

**DALLAS CHILDREN'S THEATER, INC.**  
**STATEMENT OF ACTIVITIES** *(continued)*  
**Year ended August 31, 2016**

	<b>Capital</b>			<b>Total</b>	<b>Total Funds</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>		
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	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	156,959	(156,959)	-	-	-
Total revenue, gains, and other support	231,577	(71,909)	-	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	(165,248)	(71,909)	-	(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>\$ 6,821,100</u>	<u>\$ 159,825</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.**

**STATEMENT OF ACTIVITIES**

**Year ended August 31, 2015**

	Operations			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, gains, and other support:				
Support				
Foundation	\$ 237,155	\$ 235,500	\$ -	\$ 472,655
Corporation	586,110	24,000	-	610,110
Individuals	252,188	12,400	-	264,588
Special events, net of direct expenses of \$127,239 and including in-kind of \$56,963	172,619	-	-	172,619
In-kind contributions	63,987	-	-	63,987
Grants				
Government grants	17,000	56,995	-	73,995
Restricted grant - Crystal Charity Ball	-	90,000	-	90,000
Total support	1,329,059	418,895	-	1,747,954
Revenue				
Ticket sales	1,001,798	-	-	1,001,798
Tour presenter fees	553,978	-	-	553,978
Tuition	522,016	-	-	522,016
Rental and other	210,832	-	-	210,832
Net unrealized and realized gains	65	-	-	65
Total revenue	2,288,689	-	-	2,288,689
Net assets released from restriction				
Expiration of time and purpose restrictions	364,334	(364,334)	-	-
Total revenue, gains, and other support	3,982,082	54,561	-	4,036,643
Expenses:				
Program services	2,978,835	-	-	2,978,835
Management and general	380,059	-	-	380,059
Fundraising	348,187	-	-	348,187
Total expenses	3,707,081	-	-	3,707,081
Changes in net assets	275,001	54,561	-	329,562
Net assets at beginning of year	67,202	204,132	10,000	281,334
Net assets at end of year	\$ 342,203	\$ 258,693	\$ 10,000	\$ 610,896

See accompanying notes to financial statements.



**DALLAS CHILDREN'S THEATER, INC.**  
**STATEMENT OF ACTIVITIES** *(continued)*  
**Year ended August 31, 2015**

	<b>Capital</b>			<b>Total</b>	<b>Total Funds</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>		
Revenue, gains, and other support:					
Support					
Foundation	\$ -	\$ -	\$ -	\$ -	\$ 472,655
Corporation	-	150,000	-	150,000	760,110
Individuals	-	45,291	-	45,291	309,879
Special events	-	-	-	-	172,619
In-kind contributions	-	-	-	-	63,987
Grants					
Government grants	-	-	-	-	73,995
Restricted grant - Crystal Charity Ball	-	-	-	-	90,000
Total support	-	195,291	-	195,291	1,943,245
Revenue					
Ticket sales	-	-	-	-	1,001,798
Tour presenter fees	-	-	-	-	553,978
Tuition	-	-	-	-	522,016
Rental and other	435	-	-	435	211,267
Net unrealized and realized gains	619	-	-	619	684
Total revenue	1,054	-	-	1,054	2,289,743
Net assets released from restriction					
Expiration of time and purpose restrictions	230,000	(230,000)	-	-	-
Total revenue, gains, and other support	231,054	(34,709)	-	196,345	4,232,988
Expenses:					
Program services	350,671	-	-	350,671	3,329,506
Management and general	18,510	-	-	18,510	398,569
Fundraising	60,869	-	-	60,869	409,056
Total expenses	430,050	-	-	430,050	4,137,131
Changes in net assets	(198,996)	(34,709)	-	(233,705)	95,857
Net assets at beginning of year	7,185,344	266,443	100,000	7,551,787	7,833,121
Net assets at end of year	<u>\$ 6,986,348</u>	<u>\$ 231,734</u>	<u>\$ 100,000</u>	<u>\$ 7,318,082</u>	<u>\$ 7,928,978</u>

See accompanying notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

	<b>Year Ended August 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 118,251	\$ 95,857
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	316,784	313,786
Amortization	5,500	5,500
Net unrealized and realized gains on investments	(8,986)	(684)
Donated securities	(18,586)	-
Discount (recovery) on pledges receivable	461	(336)
Bad debt recovery	685	-
Contributions restricted for investment in capital assets	(141,050)	(209,518)
Changes in net assets and liabilities:		
Pledges receivable	115,778	(111,471)
Prepaid expenses and other assets	(37,644)	(317)
Accounts payable	5,105	14,336
Accrued expenses	(28,928)	696
Deferred revenue	110,224	23,953
Net cash provided by (used in) operating activities	437,594	131,802
<b>Cash flows from investing activities:</b>		
Purchase of certificates of deposit	(320,301)	-
Change in restricted cash	(116)	(115)
Proceeds from sale of donated securities	18,930	-
Purchases of fixed assets	(43,192)	(54,918)
Net cash used in investing activities	(344,679)	(55,033)
<b>Cash flows from financing activities:</b>		
Contributions restricted for investment in capital assets	141,050	209,518
Principal payments on notes payable	(65,733)	(63,163)
Net cash provided by financing activities	75,317	146,355
Net increase (decrease) in cash and cash equivalents	168,232	223,124
Cash and cash equivalents at beginning of year	651,096	427,972
Cash and cash equivalents at end year	\$ 819,328	\$ 651,096
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 45,834	\$ 48,404

See accompanying notes to financial statements.

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

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended August 31, 2016**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
<b>Operations</b>				
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
<b>Total functional expense for Operations</b>	<b>3,141,335</b>	<b>431,332</b>	<b>370,599</b>	<b>3,943,266</b>
<b>Capital</b>				
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)
<b>Total functional expense for Capital</b>	<b>329,570</b>	<b>17,335</b>	<b>49,920</b>	<b>396,825</b>
<b>Total functional expenses</b>	<b>\$ 3,470,905</b>	<b>\$ 448,667</b>	<b>\$ 420,519</b>	<b>\$ 4,340,091</b>

See accompanying notes to financial statements.

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

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended August 31, 2015**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
<b>Operations</b>				
Salaries - staff	\$ 592,048	\$ 224,535	\$ 222,230	\$ 1,038,813
Professional services - artistic	496,372	-	-	496,372
Salaries - artistic	295,545	-	-	295,545
Royalties and commissions	229,200	-	-	229,200
Travel	203,844	6,926	2,860	213,630
Supplies and materials	193,419	8,708	2,764	204,891
Building expense	152,587	29,487	20,197	202,271
Legal and professional	170,422	15,495	6,973	192,890
Advertising	180,116	-	-	180,116
Fringe benefits	107,381	39,858	27,889	175,128
Payroll taxes	96,432	24,539	20,763	141,734
Utilities	81,438	4,426	2,656	88,520
Printing and publications	56,088	455	10,452	66,995
Insurance	35,541	1,748	1,049	38,338
Postage and shipping	22,024	6,673	8,263	36,960
Bank and credit card charges	15,796	2,445	15,924	34,165
Depreciation	16,741	632	379	17,752
Telephone	6,434	6,434	3,217	16,085
Store	14,131	-	-	14,131
Dues and subscriptions	1,812	5,973	2,021	9,806
Artistic and audience development	6,032	-	-	6,032
Miscellaneous	2,698	1,463	-	4,161
Rents	2,484	-	-	2,484
Donor recognition	250	-	550	800
Interest	-	262	-	262
Total functional expense for Operations	<u>2,978,835</u>	<u>380,059</u>	<u>348,187</u>	<u>3,707,081</u>
<b>Capital</b>				
Depreciation	272,351	14,802	8,881	296,034
Interest	44,085	2,396	1,438	47,919
Salaries - staff	-	-	47,262	47,262
Maintenance and Repairs	24,137	1,312	787	26,236
Supplies	6,798	-	244	7,042
Amortization	3,300	-	2,200	5,500
Bank and credit card charges	-	-	57	57
Total functional expense for Capital	<u>350,671</u>	<u>18,510</u>	<u>60,869</u>	<u>430,050</u>
Total functional expenses	<u>\$ 3,329,506</u>	<u>\$ 398,569</u>	<u>\$ 409,056</u>	<u>\$ 4,137,131</u>

See accompanying notes to financial statements.

**DALLAS CHILDREN’S THEATER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**August 31, 2016 and 2015**

**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.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

**Basis of Accounting – continued**

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.

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, 2016 and 2015, 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.

## DALLAS CHILDREN'S THEATER, INC.

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

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

##### **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.

##### **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.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

**Investments – continued**

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.

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.



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

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

**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.

**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, 2016 and 2015, were approximately \$195,000 and \$180,000, 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.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

**Endowment Funds – continued**

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, 2016 and 2015, 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,
- 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, 2016 and 2015. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

**Federal Income Taxes – continued**

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 within the United States and no tax returns are currently under examination by any tax authorities.

**C. Cash and Cash Equivalents**

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

	<u>2016</u>	<u>2015</u>
Capital	\$ 191,509	\$ 152,431
Operating	559,604	423,830
Opera Fund	18,023	17,980
Purpose Restricted	<u>50,192</u>	<u>56,855</u>
	<u>\$ 819,328</u>	<u>\$ 651,096</u>

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

	<u>2016</u>	<u>2015</u>
Actor's Equity Association Bond	<u>\$ 16,237</u>	<u>\$ 16,121</u>
	<u>\$ 16,237</u>	<u>\$ 16,121</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.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**D. Pledges Receivable, Net**

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

	<b>2016</b>	<b>2015</b>
Less than 1 year	\$ 117,322	\$ 185,600
1-5 years	40,000	90,000
Total pledges receivable	157,322	275,600
Allowance for uncollectible pledges	-	(893)
Unamortized discount to adjust pledges to net present value	(368)	(829)
Net pledges receivable	\$ 156,954	\$ 273,878

The pledge discount was computed using the risk-free treasury interest rates 0.93% for both of the years ended August 31, 2016 and 2015. Pledges receivable at August 31, 2016 and 2015, consist of \$115,000 due from 4 donors and \$100,000 due from 3 donors, respectively, and approximately \$32,300 and \$7,000 in pledges receivable from related parties, respectively. 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, 2016, 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:

	<b>Cost</b>	<b>Unrealized Gain</b>	<b>Fair Value (Level 2)</b>
<b>2016</b>			
Endowment – investment in annuity	\$ 110,000	\$ 135,130	\$ 245,130
<b>2015</b>			
Endowment – investment in annuity	\$ 110,000	\$ 126,488	\$ 236,488

Investment income for the years ended August 31, 2016 and 2015, consists of unrealized gains of \$8,642 and \$684, respectively.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**E. Investments – continued**

At August 31, 2016, the Organization had investments in certificates of deposit valued at \$320,301. The certificates of deposit were purchased in May 2016, mature between November 2016 and August 2017, and bear 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>2016</u>	<u>2015</u>
Special events	\$ 67,319	\$ 56,963
Miscellaneous	48,578	53,987
Sponsorships	<u>10,000</u>	<u>10,000</u>
	<u>\$ 125,897</u>	<u>\$ 120,950</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.

**G. Endowments**

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

	<u>2016</u>	<u>2015</u>
<b>Operating</b>		
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>
<b>Capital</b>		
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>

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**G. Endowments – continued**

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, 2015, \$150,000 was contributed to the fund directly by a donor on behalf of 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, 2016, the estimated value of the endowment fund held by the Foundation approximated \$152,000.

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

**H. Net Assets**

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

	<u>2016</u>	<u>2015</u>
Designated for specific purpose:		
Artwork	\$ 50,000	\$ 50,000
Capital	30,000	40,000
Cash reserves	-	40,000
Artistic development	59,064	50,000
Audience development	56,037	45,000
Undesignated funds:		
Operations	265,849	207,203
Capital	6,821,100	6,896,348
	<u>\$ 7,282,050</u>	<u>\$ 7,328,551</u>

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

	<u>2016</u>	<u>2015</u>
Operations (time restricted)	\$ 106,838	\$ 183,839
Operations (purpose restricted)	370,493	56,874
Opera Fund	18,023	17,980
Capital Fund (net of discount)	159,825	231,734
	<u>\$ 655,179</u>	<u>\$ 490,427</u>

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**H. Net Assets – continued**

During the years ended August 31, 2016 and 2015, the Organization recognized revenue of \$474,400 and \$90,000, respectively, from a multi-year conditional 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, 2016 and 2015, the remaining unexpended funds under the grant that are purpose restricted are \$364,888 and \$50,000, 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 years 2017 and 2018 as grant expenditures are made.

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

	<u>2016</u>	<u>2015</u>
Endowments – Capital	\$ 100,000	\$ 100,000
Endowment – Operations	10,000	10,000
	<u>\$ 110,000</u>	<u>\$ 110,000</u>

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:

	<u>2016</u>	<u>2015</u>
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.	\$ 963,006	\$ 1,023,475
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, 2016), interest payable monthly beginning June 2012 with outstanding principal due May 2018.	-	-

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**I. Notes Payable – continued**

	<u>2016</u>	<u>2015</u>
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.	11,405	16,669
Total notes payable	974,411	1,040,144
Less current portion	(68,346)	(65,740)
Total long-term notes payable	<u>\$ 906,065</u>	<u>\$ 974,404</u>

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

2017	\$ 68,346
2018	71,826
2019	70,067
2020	72,609
2021	76,085
Thereafter	615,478
	<u>\$ 974,411</u>

Interest expense was \$45,600 and \$48,181 for the years ended August 31, 2016 and 2015, respectively.

**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.



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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**J. Rental Agreements – continued**

At August 31, 2016, 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:

2017	\$ 76,310
2018	17,460
2019	17,460
2020	17,460
2021	<u>17,460</u>
	<u>\$ 146,150</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 \$38,000 and \$40,000 with the company for each of the years ended August 31, 2016 and 2015, respectively. At August 31, 2016 and 2015, approximately \$100 and \$500, respectively, was payable to the company.

**M. Subsequent Events**

In preparing the financial statements, the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through December 14, 2016, the date the financial statements were available for issuance.