

AMERICAN ASSOCIATION OF COMMUNITY THEATRE

Financial Statements

For the Year Ended August 31, 2018

CHARLES O. PAUL

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Association of Community Theatre

We have audited the accompanying financial statements of American Association of Community Theatre (the Association), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and cash flows and functional expenses 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; 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 American Association of Community Theatre as of August 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the American Association of Community Theatre's 2017 financial statements, and our report dated January 9, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



CHARLES O. PAUL, CPA
North Richland Hills, Texas
April 17, 2019

**AMERICAN ASSOCIATION OF COMMUNITY THEATRE
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2018
WITH COMPARATIVE SUMMARIZED INFORMATION AT
AUGUST 31, 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 626,066	\$ 536,046
Certificates of deposit	94,503	94,381
Pledges receivable	33,312	30,075
Accounts receivable	8,072	16,747
Inventory	1,479	1,910
Prepaid expense	21,065	9,894
TOTAL CURRENT ASSETS	<u>784,497</u>	<u>689,053</u>
 PROPERTY AND EQUIPMENT, NET	 2,990	 3,624
 OTHER ASSETS		
Website, net of accumulated amortization of \$24,683	16,172	26,386
Security deposit	400	400
 RESTRICTED ASSETS		
Restricted cash	63,541	42,137
Restricted long-term investments	389,826	347,559
	<u>453,367</u>	<u>389,696</u>
 TOTAL ASSETS	 <u>\$ 1,257,426</u>	 <u>\$ 1,109,159</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 65,489	\$ 83,273
Deferred revenue	297,807	285,269
TOTAL CURRENT LIABILITIES	<u>363,296</u>	<u>368,542</u>
 NET ASSETS		
Unrestricted	407,451	320,846
Temporarily restricted	486,679	419,771
TOTAL NET ASSETS	<u>894,130</u>	<u>740,617</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,257,426</u>	 <u>\$ 1,109,159</u>

The notes to financial statements are an integral part of these statements.

**AMERICAN ASSOCIATION OF COMMUNITY THEATRE
STATEMENTS OF ACTIVITIES
YEAR ENDED AUGUST 31, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Memberships	\$ 291,293	\$ -	\$ 291,293
Advertising - Spotlight	109,118	-	109,118
Corporate partners	75,122	-	75,122
Contributions and support	12,749	49,315	62,064
Education	23,240	-	23,240
ASCAP	44,573	-	44,573
Mailing list rental	8,463	-	8,463
Interest and dividends	1,484	8,323	9,807
Festival income	5,516	1,173	6,689
Other	2,277	-	2,277
Publications	819	-	819
Net realized and unrealized gains and losses on investments	-	37,288	37,288
Net assets released from restrictions	29,191	(29,191)	-
Total support and revenue	<u>603,845</u>	<u>66,908</u>	<u>670,753</u>
EXPENSES			
Program services	348,822	-	348,822
General and administrative	168,418	-	168,418
	<u>517,240</u>	<u>-</u>	<u>517,240</u>
CHANGE IN NET ASSETS	86,605	66,908	153,513
NET ASSETS - Beginning of Year	<u>320,846</u>	<u>419,771</u>	<u>740,617</u>
NET ASSETS - End of Year	<u><u>\$ 407,451</u></u>	<u><u>\$ 486,679</u></u>	<u><u>\$ 894,130</u></u>

The notes to financial statements are an integral part of this statement.

**AMERICAN ASSOCIATION OF COMMUNITY THEATRE
STATEMENTS OF ACTIVITIES
YEAR ENDED AUGUST 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Memberships	\$ 287,375	\$ -	\$ 287,375
Advertising - Spotlight	86,743	-	86,743
Corporate partners	82,500	-	82,500
Contributions and support	19,462	6,010	25,472
Education	9,121	-	9,121
ASCAP	44,841	-	44,841
Mailing list rental	8,183	-	8,183
Interest and dividends	1,755	6,517	8,272
Festival income	131,023	8,717	139,740
Other	2,206	-	2,206
Publications	1,159	-	1,159
Net realized and unrealized gains and losses on investments	-	32,107	32,107
Net assets released from restrictions	52,279	(52,279)	-
Total support and revenue	<u>726,647</u>	<u>1,072</u>	<u>727,719</u>
EXPENSES			
Program services	503,465	-	503,465
General and administrative	183,465	-	183,465
	<u>686,930</u>	<u>-</u>	<u>686,930</u>
CHANGE IN NET ASSETS	39,717	1,072	40,789
NET ASSETS - Beginning of Year	<u>281,129</u>	<u>418,699</u>	<u>699,828</u>
NET ASSETS - End of Year	<u><u>\$ 320,846</u></u>	<u><u>\$ 419,771</u></u>	<u><u>\$ 740,617</u></u>

The notes to financial statements are an integral part of this statement.

**AMERICAN ASSOCIATION OF COMMUNITY THEATRE
STATEMENTS OF CASH FLOWS
YEAR ENDED AUGUST 31, 2018
WITH COMPARATIVE SUMMARIZED INFORMATION FOR THE
YEAR ENDED AUGUST 31, 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 153,513	\$ 40,789
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	633	991
Amortization	10,214	10,214
Net realized and unrealized (gains) and losses on investments	(37,288)	(32,107)
Change in operating assets and liabilities		
Pledges receivable	(3,236)	11,570
Accounts receivable	8,675	21,218
Prepaid expenses	(11,171)	(2,528)
Inventory	431	825
Accounts payable	(17,784)	25,631
Deferred revenue	12,538	(5,700)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>116,525</u>	<u>70,903</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment purchase	-	(3,899)
Purchase of certificate of deposit	(122)	(31,760)
Sale (Purchase) of investments	(4,979)	(20,972)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(5,101)</u>	<u>(56,631)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in cash restricted to endowment	(21,404)	24,438
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(21,404)</u>	<u>24,438</u>
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	90,020	38,710
CASH & CASH EQUIVALENTS - Beginning of year	<u>536,046</u>	<u>497,336</u>
CASH & CASH EQUIVALENTS - End of year	<u>\$ 626,066</u>	<u>\$ 536,046</u>
SUPPLEMENTAL CASH FLOW SCHEDULE:		
Interest received	\$ 1,484	\$ 1,755

The notes to financial statements are an integral part of these statements.

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2018

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 163,793	\$ 66,183	\$ 229,976
Payroll taxes	14,061	5,681	19,742
Employee benefits	-	37,185	37,185
	<u>177,854</u>	<u>109,049</u>	<u>286,903</u>
Total personnel costs			
Printing	33,455	1,948	35,403
Postage	7,048	3,040	10,088
Regional representative	701	-	701
International	1,500	-	1,500
Marketing and promotion	5,283	-	5,283
Contract labor	35,945	-	35,945
Materials and supplies	-	11,802	11,802
Travel	9,453	3,766	13,219
Telephone and conference calls	-	1,005	1,005
Insurance	-	2,689	2,689
Accounting	-	6,553	6,553
Dues	464	-	464
Office rent	-	11,368	11,368
Merchant service fees	-	7,421	7,421
Internet	-	952	952
Miscellaneous	55	1,037	1,092
Software	-	792	792
Advocacy	2,230	-	2,230
Meetings	1,258	3,085	4,343
Website	25,464	-	25,464
Website amortization	10,214	-	10,214
Awards	1,096	-	1,096
AACT Fest	2,242	-	2,242
Cost of books sold	432	-	432
Education	9,024	-	9,024
Festival	2,807	-	2,807
New play fest	2,297	-	2,297
JK Ayre Distributions	20,000	-	20,000
Endowment management fee	-	3,278	3,278
	<u>348,822</u>	<u>167,785</u>	<u>516,607</u>
Depreciation	-	633	633
	<u>\$ 348,822</u>	<u>\$ 168,418</u>	<u>\$ 517,240</u>

The notes to financial statements are an integral part of these statements.

**AMERICAN ASSOCIATION OF COMMUNITY THEATRE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2017**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 159,610	\$ 65,193	\$ 224,803
Payroll taxes	13,854	5,659	19,513
Employee benefits	-	37,210	37,210
	<u>173,464</u>	<u>108,062</u>	<u>281,526</u>
Total personnel costs			
Printing	37,750	1,818	39,568
Postage	7,778	6,988	14,766
Regional representative	78	-	78
International	2,000	-	2,000
Marketing and promotion	7,876	-	7,876
Contract labor	34,600	-	34,600
Materials and supplies	-	12,997	12,997
Travel	31,165	3,187	34,352
Telephone and conference calls	-	2,035	2,035
Insurance	-	3,015	3,015
Accounting	-	6,311	6,311
Dues	387	-	387
Office rent	-	11,111	11,111
Merchant service fees	-	7,244	7,244
Internet	985	-	985
Miscellaneous	-	595	595
Endowment restructuring expense	-	4,283	4,283
Executive director search	-	7,717	7,717
Software	-	483	483
Advocacy	1,918	-	1,918
Meetings	-	3,658	3,658
Website	27,357	-	27,357
Website amortization	10,214	-	10,214
Awards	2,240	-	2,240
AACT Fest	12,240	-	12,240
Cost of books sold	633	-	633
Education	9,909	-	9,909
Festival	96,874	-	96,874
New play fest	1,717	-	1,717
JK Ayre Distributions	12,000	-	12,000
Endowment grants	32,280	-	32,280
Endowment management fee	-	2,970	2,970
	<u>503,465</u>	<u>182,474</u>	<u>685,939</u>
Depreciation	-	991	991
	<u>\$ 503,465</u>	<u>\$ 183,465</u>	<u>\$ 686,930</u>

The notes to financial statements are an integral part of these statements.

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
Notes to Financial Statements

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The American Association of Community Theatre (the "Association") was incorporated in 1986 in the State of Illinois under the General Not For Profit Act for the purpose of fostering and encouraging the development of excellence in community theatre throughout the United States.

Basis of Presentation

In accordance with FASB Accounting Standards Codification Section 958, the Association is required 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.

Unrestricted net assets are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets are reported in this category.

Temporarily restricted net assets include gifts with donor-imposed restrictions that permit the donee organization to use up or expend as specified and is satisfied either by the passage of time or by actions of the Association.

Permanently restricted net assets include gifts with donor-imposed restrictions that stipulate that resources be maintained permanently but permit the Association to use up or expend part or all of the income (or other economic benefits) derived from the donated assets. The Association has no permanently restricted net assets.

New Accounting Pronouncements

The FASB has issued accounting pronouncements that refine accounting for Not For Profit organizations and require the capitalization of long-term leases. It is the opinion of management that the pronouncement will have an immaterial impact upon the presentation of the financial statements of the Association.

Subsequent Events

As required by FASB Accounting Standards Codification Section 855, the Association values subsequent events for disclosure through the date that the financials are made available for issue. The date that the financial statements were made available for issue was February 19, 2019. As of that date, no significant subsequent events were known to exist that would materially affect the financial statements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents consist of all highly liquid investments with an original maturity of three months or less when purchased.

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
Notes to Financial Statements

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted and Restricted Revenue and Support

The Association accounts for contributions in accordance with the requirements of FASB Accounting Standards Codification Section 958. In accordance with those standards, contributions received are considered to be unrestricted support, unless explicit donor stipulations specify a use for the funds, and are recognized in the period received. When donors stipulate specific uses for their contributions, they are considered to be temporarily or permanently restricted support in the period received. When donors' stipulations are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Pledges Receivable

Unconditional promises to give are recorded as pledges receivable and contribution revenue when received. All pledges are recorded at their fair value and due within a range of one to five years at the time of pledge. No allowance for uncollectible pledges has been recorded as all pledges were deemed collectible by management at August 31, 2018.

Accounts Receivable

Accounts receivable are stated at an amount management expects to collect from outstanding balances. The Association considers accounts receivable to be fully collectible; accordingly, no allowance has been recorded. If amounts become uncollectible, they will be charged to operations when that determination is made.

Donated Services

The Association recognizes the value of contributed services at estimated market value when meeting the criteria as set forth in FASB Accounting Standards Codification Section 958. These criteria include services that create or enhance non-financial assets or require specialized skills and would typically need to be purchased if not provided by donation. A significant amount of volunteer services received by the Association is currently not recognized in these financial statements as these services do not meet the criteria for recognition under FASB Accounting Standards Codification Section 958.

Inventory

Inventory consists of publications held for sale and is carried at the lower of cost or market value.

Deferred Revenue

Deferred revenue represents annual member dues collected for the next membership year, deferred advertising income and deferred program fees.

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
Notes to Financial Statements

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Investments

Investments are initially recorded at cost for purchased investments and fair value for contributed investments. Investments are presented in the financial statements at fair value. Unrealized and realized gains and losses are included in the statement of activities.

Property and Equipment

The Association capitalizes all property and equipment acquired over \$1,000 and that has a useful life over one year. Capitalized property and equipment are recorded at cost, while property contributed is recorded at its fair value on the date of contribution. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Assets are being depreciated over estimated useful lives of three to five years using a straight-line method.

Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements; and (2) revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Association is exempt from Federal income taxes under Section 501(c) 3 of the Internal Revenue Code. Net income from publication advertising is subject to taxation as unrelated business income.

Functional Allocation of Expenses

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

Website

The Association's website is being amortized over its expected life of sixty months.

Comparative Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2017 from which the summarized information was derived.

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
Notes to Financial Statements

NOTE B — FAIR VALUES OF FINANCIAL INSTRUMENTS

In accordance with FASB Accounting Standards Codification Section 820, the Association classifies its financial assets and liabilities into Level 1, which refers to assets and liabilities with quoted prices in an active market; Level 2, which refers to assets and liabilities not traded on an open market but for which other observable inputs are available; and Level 3, which refers to assets and liabilities not traded in active markets which require significant unobservable inputs to value. Currently, all of the Association's financial assets and liabilities are classified as Level 1.

Fair value for cash, cash equivalents, and accounts receivable approximate carrying value due to the short maturities of the instruments.

NOTE C -- ENDOWMENT

Effective June 1994, the Community Theatre Foundation was dissolved and the remaining net assets were contributed to the Association as an Endowment. The related net assets are temporarily restricted for the purpose of the Endowment, which is to provide mission support, to assist theatres advancing to the national festival with related expenses and to assist theatres producing in the new works play festival.

Interpretation of State Law

The Association's endowment fund includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Association have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the date of the donor-restricted endowment absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
Notes to Financial Statements

NOTE C – ENDOWMENT (Continued)

- 1) Duration and preservation of the fund.
- 2) Purposes of the Association and the fund
- 3) General economic conditions
- 4) Possible effect of inflation and deflation
- 5) Expected total return from investment income and appreciation or depreciation of investments
- 6) Other resources of the Association
- 7) Investment policies of the Association

The Association currently has no permanently restricted endowment funds.

Investment Policy

Under the Association's investment policy, endowment assets are invested in a manner that is intended to preserve inflation adjusted values and provide annual budgetary support that is both stable and growing.

To satisfy its long-term rate of return objectives, the Association relies on a total return strategy in which investment returns are achieved through both a current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Association targets a diversified asset allocation to achieve these goals.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of August 31, 2018:

	<u>2018</u>
Office and computer equipment	\$15,245
Accumulated depreciation	<u>12,255</u>
	<u>\$ 2,990</u>

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at August 31, 2018:

Mission	\$ 77,279
Festival	<u>405,400</u>
Assets accumulated by Endowment as described in Note C:	482,679
New Works	<u>4,000</u>
Total	<u>\$486,679</u>

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
Notes to Financial Statements

NOTE E – TEMPORARILY RESTRICTED NET ASSETS (Continued)

Changes in the Temporarily Restricted Net Assets during the year ended August 31, 2018 are as follows:

Balance, August 31, 2017	\$419,771
Contributions	49,315
Investment income	8,323
Endowment event and People's Choice	1,173
Net appreciation	37,288
Distributions	(20,000)
Management fees and expenses	<u>(9,191)</u>
Balance, August 31, 2018	<u>\$486,679</u>

NOTE F – LONG-TERM INVESTMENTS

Long-term investments consisted of the following as of August 31, 2018:

EQUITY SECUTITIES	COST	FAIR VALUE
August 31, 2018	\$ 219,672	\$ 389,826

NOTE G — CONCENTRATION OF CREDIT RISK

The Association's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents. At times, cash and cash equivalents may exceed FDIC limits. At August 31, 2018, there was \$179,854 in uninsured balances.

AACT also maintains cash in a money market fund and holds securities with an investment company which is not insured by the FDIC. At August 31, 2018, these balances totaled \$432,028.

NOTE H -- LEASES

The Association leases office space from Fort Worth Community Arts Center. The base rent is \$11,245 annually. The lease term expires September 30, 2019. The lease agreement may be terminated by either party by a ninety day written notice.

In addition to the office space lease, the Association entered into parking agreements with Fort Worth Community Arts Center to allow for parking of Association personnel for \$100 per month.

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
Notes to Financial Statements

NOTE I – EMPLOYEE BENEFIT PLAN

The Association adopted a 401 (k) plan for its employees which became effective in June 2015. The plan covers all full time employees after a three month wait period. The plan provides for a 4% elective deferral from the employees with a 100% matching contribution by the Association. The plan allows for annual discretionary contributions to be made by the Association. Total retirement expense incurred by the Association for the year ended August 31, 2018 was \$6,444.