

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2018 AND 2017**

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
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Independent Auditors' Report

To the Board of Directors
Nashville Academy Theatre and
Nashville Children's Theatre Association

Report on the Financial Statements

We have audited the accompanying financial statements of Nashville Academy Theatre and Nashville Children's Theatre Association, which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities and changes in net assets, functional expenses and cash flows 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; 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.

Auditors' 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 of 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 auditors' 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 Nashville Academy Theatre and Nashville Children's Theatre Association as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the financial statements for the year ended June 30, 2017 have been restated to correct a misstatement and to reflect an accounting method change. Our opinion is not modified with respect to this matter.

Blankenship CPA Group, PLLC
January 29, 2019

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
Cash	\$ 9,088	\$ 140,184
Restricted certificate of deposit	20,485	20,475
Accounts receivable, net	-	1,800
Contributions receivable, net	64,583	154,948
Contributions receivable - facilities use	74,333	74,333
Prepaid expenses and other	72,355	37,781
Property and equipment, net	2,988,627	3,131,906
Beneficial interest in assets held by Community Foundation of Middle Tennessee	<u>307,185</u>	<u>278,891</u>
TOTAL ASSETS	<u><u>\$ 3,536,656</u></u>	<u><u>\$ 3,840,318</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 84,844	\$ 46,965
Accrued expenses	37,961	34,761
Line of credit	223	-
Deferred revenues	<u>154,909</u>	<u>120,184</u>
TOTAL LIABILITIES	<u>277,937</u>	<u>201,910</u>
NET ASSETS		
Unrestricted		
Designated by the Board for endowment	158,021	154,882
Undesignated	<u>2,795,063</u>	<u>3,166,192</u>
Total unrestricted	2,953,084	3,321,074
Temporarily restricted	156,806	180,164
Permanently restricted	<u>148,829</u>	<u>137,170</u>
TOTAL NET ASSETS	<u>3,258,719</u>	<u>3,638,408</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,536,656</u></u>	<u><u>\$ 3,840,318</u></u>

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

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT		
Revenues		
Admissions	\$ 716,141	\$ 592,782
Theatre academy	346,794	296,390
Concessions and merchandise (net of direct costs of 2018 - \$19,296; 2017 - \$11,683)	3,738	7,292
Contracted services	6,869	6,369
Total Revenues	<u>1,073,542</u>	<u>902,833</u>
Support		
Contributions	238,625	325,093
Government grants and support	329,828	275,470
Benefit events (net of direct expenses of 2018 - \$48,782; 2017 - \$13,777)	4,824	13,600
Distribution from beneficial interest in assets held by Community Foundation of Middle Tennessee	8,900	7,700
Change in value of beneficial interest in assets held by Community Foundation of Middle Tennessee	3,139	8,306
Net assets released from restrictions	152,944	117,149
Total Support	<u>738,260</u>	<u>747,318</u>
Interest income	<u>14</u>	<u>381</u>
TOTAL REVENUES, SUPPORT AND RECLASSIFICATIONS	<u>1,811,816</u>	<u>1,650,532</u>
EXPENSES		
Program services		
Productions	1,279,989	1,124,839
Education	524,800	502,663
Supporting services		
General and administrative expenses	287,753	232,722
Fundraising expenses	87,264	96,636
TOTAL EXPENSES	<u>2,179,806</u>	<u>1,956,860</u>
Decrease in unrestricted net assets	<u>(367,990)</u>	<u>(306,328)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Donated facilities usage	74,333	74,333
Contributions	55,000	105,749
Change in value of beneficial interest in assets held by Community Foundation of Middle Tennessee	253	82
Net assets released from restrictions	(152,944)	(117,149)
(Decrease) increase in temporarily restricted net assets	<u>(23,358)</u>	<u>63,015</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	500	-
Change in value of beneficial interest in assets held by Community Foundation of Middle Tennessee	11,159	14,372
Increase in permanently restricted net assets	<u>11,659</u>	<u>14,372</u>
DECREASE IN NET ASSETS	(379,689)	(228,941)
NET ASSETS - BEGINNING OF YEAR	3,638,408	3,867,349
NET ASSETS - END OF YEAR	<u>\$ 3,258,719</u>	<u>\$ 3,638,408</u>

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

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program services		Supporting services		
	Productions	Education	General and Administrative	Fundraising	Total
Salaries	\$ 535,553	\$ 271,615	\$ 126,377	\$ 50,400	\$ 983,945
Fringe benefits	144,607	40,390	16,254	9,716	210,967
	<u>680,160</u>	<u>312,005</u>	<u>142,631</u>	<u>60,116</u>	<u>1,194,912</u>
Depreciation	168,806	65,853	10,976	-	245,635
Advertising and public relations	71,937	22,717	-	-	94,654
Professional services	19,149	14,362	40,387	10,175	84,073
Rent	44,600	29,000	7,433	-	81,033
Utilities	40,783	20,391	6,797	-	67,971
Production materials	59,257	5,262	-	-	64,519
Royalties	49,543	750	-	-	50,293
Software and licensing	21,182	5,534	23,279	-	49,995
Supplies	25,077	8,607	7,542	2,362	43,588
Insurance	21,738	10,869	3,623	-	36,230
Ticketing fees	22,641	9,703	-	-	32,344
Custodial services	16,440	8,220	2,740	-	27,400
Printing	13,423	4,239	2,444	4,184	24,290
Travel and registrations	14,340	1,538	5,096	1,679	22,653
Bad debts	-	-	13,402	-	13,402
Postage	3,462	1,143	3,324	4,753	12,682
Subscriptions and dues	31	5	12,384	-	12,420
Hospitality	1,213	937	2,752	3,995	8,897
Equipment rental and maintenance	4,197	2,099	700	-	6,996
Employment screening	2,010	1,566	413	-	3,989
Interest	-	-	1,830	-	1,830
	<u>\$ 1,279,989</u>	<u>\$ 524,800</u>	<u>\$ 287,753</u>	<u>\$ 87,264</u>	<u>\$ 2,179,806</u>

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

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Program services		Supporting services		Total
	Productions	Education	General and Administrative	Fundraising	
Salaries	\$ 471,543	\$ 249,984	\$ 107,997	\$ 78,286	\$ 907,810
Fringe benefits	146,708	44,901	19,417	6,485	217,511
	<u>618,251</u>	<u>294,885</u>	<u>127,414</u>	<u>84,771</u>	<u>1,125,321</u>
Depreciation	168,533	67,094	11,182	-	246,809
Advertising and public relations	56,428	17,819	-	-	74,247
Professional services	27,430	10,318	32,268	755	70,771
Rent	44,600	28,200	7,433	-	80,233
Utilities	40,837	20,419	6,806	-	68,062
Production materials	20,600	6,823	-	-	27,423
Royalties	28,533	3,759	-	-	32,292
Software and licensing	10,604	5,736	6,480	-	22,820
Supplies	17,505	3,593	12,586	3,403	37,087
Insurance	19,507	9,754	3,251	-	32,512
Ticketing fees	20,044	8,590	-	-	28,634
Custodial services	16,440	8,220	2,740	-	27,400
Printing	21,965	6,944	2,688	3,061	34,658
Travel and registrations	7,108	3,561	3,082	124	13,875
Bad debts	-	-	7,447	-	7,447
Postage	772	2,363	2,314	2,861	8,310
Subscriptions and dues	78	237	2,694	1,380	4,389
Hospitality	465	433	3,233	281	4,412
Equipment rental and maintenance	4,984	2,492	831	-	8,307
Employment screening	155	1,423	273	-	1,851
	<u>\$ 1,124,839</u>	<u>\$ 502,663</u>	<u>\$ 232,722</u>	<u>\$ 96,636</u>	<u>\$ 1,956,860</u>

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

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (379,689)	\$ (228,941)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Depreciation	245,635	246,809
Payout from beneficial interest held in trust by others	(8,900)	(7,700)
Change in value of beneficial interest in assets held by Community Foundation of Middle Tennessee	(14,551)	(22,760)
Decrease (increase) in		
Restricted certificate of deposit	(10)	(166)
Accounts receivable	1,800	1,978
Contributions receivable	90,365	(53,227)
Prepaid expenses and other	(34,574)	(3,818)
Increase (decrease) in		
Accounts payable	37,879	22,621
Accrued expenses	3,200	10,644
Deferred revenues	34,725	(364)
Net Cash Used In Operating Activities	<u>(24,120)</u>	<u>(34,924)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfers to Community Foundation of Middle Tennessee	(13,243)	(10,939)
Contributions to beneficial interest in assets held by Community Foundation of Middle Tennessee	(500)	-
Distribution received from Community Foundation of Middle Tennessee	8,900	7,700
Payments for property and equipment	<u>(102,356)</u>	<u>(49,819)</u>
Net Cash Used In Investing Activities	<u>(107,199)</u>	<u>(53,058)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on line of credit	<u>223</u>	<u>-</u>
Net Cash Provided By Financing Activities	<u>223</u>	<u>-</u>
Decrease in Cash	(131,096)	(87,982)
CASH - BEGINNING OF YEAR	140,184	228,166
CASH - END OF YEAR	<u><u>\$ 9,088</u></u>	<u><u>\$ 140,184</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u><u>\$ 1,830</u></u>	<u><u>\$ -</u></u>

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

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Nashville Academy Theatre and Nashville Children's Theatre Association, a Tennessee not-for-profit corporation (the "Academy"), is a professional theatre for young audiences of Nashville, the surrounding communities and adjacent states. In addition to theatre presentations, the Academy provides young people with opportunities for education, experience and participation in theatre arts through drama classes. Funding for the Academy is provided principally by admissions, public and private contributions, and government grants.

The Academy conducts business as the "Nashville Children's Theatre."

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Total net assets and changes in net assets are unchanged due to these reclassifications.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein and the disclosures of commitments and contingencies. Actual results could differ from those estimates.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire during the year in which the contributions are recognized.

Contributions are recognized when the donor makes an unconditional promise to give to the Academy. The Academy uses the allowance method to determine uncollectible unconditional contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenues are recognized in the period that performances occur or services are provided. Revenue received in advance is recorded as deferred revenues on the statements of financial position and recognized as revenue in the year in which it is earned.

Cash

Cash consists of checking and money market deposits held in financial institutions.

Property and Equipment

Property and equipment are stated at cost, or if donated, at the estimated fair market value as of the date of donation and consists of leasehold improvements, equipment, costumes and props. It is the Academy's policy to capitalize all property and equipment over \$1,000. Cost of costumes and props capitalized include both material and labor costs. Depreciation is provided over the assets' useful lives, generally five to twenty-five years using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

Endowment Funds

The Academy's beneficial interest in assets held by Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value of the funds are recognized in the statements of activities, and distributions received from the fund are recorded as decreases in the beneficial interest.

Compensated Absences

Accruals for accumulated unpaid vacation have been provided. No accrual is made for accumulated sick leave, since such benefits do not vest.

Income Taxes

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service (IRS) as other than a private foundation.

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 Inputs – Fair values are based on quoted prices (unadjusted) in active markets for identical assets that the Academy has the ability to access at the measurement date (e.g., prices derived from NYSE, NASDAQ or Chicago Board of Trade).

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements-Continued

Level 2 Inputs – Fair values are based on inputs other than quoted price included within level 1 that are observable for valuing the asset or liability, either directly or indirectly (e.g. interest rate and yield curves observable at commonly quoted intervals, default rates, etc.). Observable inputs include quoted prices for similar assets or liabilities in active or non-active markets. Level 2 inputs may also include insignificant adjustments to market observable inputs.

Level 3 Inputs – Fair values are based on unobservable inputs used for valuing the asset or liability. Unobservable inputs are those that reflect the Academy's own assumptions about the assumptions that market participants would use in pricing the asset, based on the best information available in the circumstances. An example could be real estate valuations, which require significant judgment.

Following is a description of the valuation methodologies used for financial assets and liabilities measured at fair value on a recurring basis:

Beneficial interest in assets held by Community Foundation of Middle Tennessee - The endowment funds held by Community Foundation of Middle Tennessee ("CFMT") represent the Academy's interest in pooled investments with other participants in the funds. CFMT prepares a valuation of the fund based on the fair value of the underlying investments and allocates income or loss to each participant based on market results. Due to the nature of the underlying investments and method of allocation of the fund, the beneficial interest in the endowment funds are classified within Level 3 of the valuation hierarchy (see Note 7).

No changes in the valuation methodologies have been made since the prior year

NOTE 3 - RESTRICTED CERTIFICATE OF DEPOSIT

Restricted certificate of deposit consists of a six month certificate of deposit held in the Actors Federal Credit Union as collateral for benefits for equity actors.

NOTE 4 - RECEIVABLES

Accounts receivable consists of amounts due from the sale of performance tickets. There was no outstanding accounts receivable at June 30, 2018. There was no allowance for doubtful accounts deemed necessary at June 30, 2017.

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 4 – RECEIVABLES (CONTINUED)

Contributions receivable consists of amounts for individuals, organizations, and government units. The contributions receivable are summarized as follows:

	2018	2017
Government grants	\$ 34,520	\$ 105,199
Giving campaigns	<u>42,063</u>	<u>55,749</u>
	76,583	160,948
Less allowance for doubtful accounts	<u>(12,000)</u>	<u>(6,000)</u>
	<u><u>\$ 64,583</u></u>	<u><u>\$ 154,948</u></u>

Scheduled expected collections of contributions receivable are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 49,333
2020	5,500
2021	5,000
2022	<u>4,750</u>
	<u><u>\$ 64,583</u></u>

Contributions receivable for facility use consists of the fair value of one year's ensuing rent totaling \$74,333. As more fully described in Note 11, the Academy has in-kind leasing arrangements with the Metropolitan Government of Nashville and Davidson County for its operational and performance space.

NOTE 5 - INVESTMENTS

The Academy's policy is to liquidate investments as soon as practical after the donation of investment securities is received. Occasionally, the Academy will have investment securities on the statements of financial position that have not been liquidated at year end. There were no investments as of June 30, 2018 and 2017.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Leasehold improvements	\$ 5,074,765	\$ 5,074,765
Furniture and fixtures	255,259	226,716
Costumes and props	289,050	217,933
Theatre equipment	<u>234,315</u>	<u>234,315</u>
	5,853,389	5,753,729
Less accumulated depreciation	<u>(2,864,762)</u>	<u>(2,621,823)</u>
	<u><u>\$ 2,988,627</u></u>	<u><u>\$ 3,131,906</u></u>

Depreciation expense was \$245,635 and \$246,809 for 2018 and 2017, respectively.

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 7 - ENDOWMENT FUNDS

The Academy has a beneficial interest in two endowment funds held by Community Foundation of Middle Tennessee ("CFMT"). The balance of the funds consists of a combination of funds classified as unrestricted-designated, temporarily restricted, and permanently restricted. Earnings on these funds are used to support professional theatre for young audiences in the Middle Tennessee area. The Academy has granted variance power to CFMT, and CFMT has the ultimate authority and control over the funds. The funds are charged a .4% administrative fee annually. Upon request by the Academy, income from the funds representing up to a 5% annual return may be distributed to the Academy or to another suggested beneficiary. A portion of the funds will not be available for any distribution until 2024 as requested by the donor.

A schedule of changes in the Academy's beneficial interest in these funds follows for the years ended June 30:

	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
June 30, 2016	\$ 146,576	\$ -	\$ 98,616	\$ 245,192
Change in value				
Investment gain	17,168	170	15,660	32,998
Fees	(1,237)	(13)	(1,288)	(2,538)
Transfers	-	-	10,939	10,939
Appropriations	<u>(7,625)</u>	<u>(75)</u>	<u>-</u>	<u>(7,700)</u>
June 30, 2017	154,882	82	123,927	278,891
Change in value				
Contributions	-	-	500	500
Investment gain	12,503	1,007	12,660	26,170
Fees	(1,127)	(91)	(1,501)	(2,719)
Transfers	-	-	13,243	13,243
Appropriations	<u>(8,237)</u>	<u>(663)</u>	<u>-</u>	<u>(8,900)</u>
June 30, 2018	<u>\$ 158,021</u>	<u>\$ 335</u>	<u>\$ 148,829</u>	<u>\$ 307,185</u>

NOTE 8 - LINE OF CREDIT

As of June 30, 2018 and 2017, the Academy had a maximum \$250,000 (increased to \$350,000 on November 8, 2018) unsecured line of credit arrangement with a financial institution. Interest on outstanding borrowings is payable monthly at the one-month London Interbank Offered Rate ("LIBOR") plus 3.0% per annum, with a minimum rate of 4.5%. The arrangement expires August 28, 2019.

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 9 - LEASING ARRANGEMENTS

The land and building occupied by the Academy is leased through the year 2023 from the Metropolitan Government of Nashville and Davidson County ("Lessor") for one dollar per year. The lease includes three five-year extension terms. The lease contains a cancellation provision should the Lessor decide to use the premises for a governmental purpose. The Academy would have no less than one calendar year's notice for cancellation. Additional time would be granted in excess of the year to allow the Academy to locate suitable, alternative space as long as the Academy is using good faith efforts to locate such space. Should the Lessor exercise the cancellation provision, the Academy would be reimbursed the unamortized portion of the capital improvements that have been amortized over the term of the lease. The Lessor also provides an in-kind donation for utilities and custodial services (see Note 11).

A contribution receivable and corresponding temporarily restricted revenue for the fair rental value of the facilities use have been recognized each year for the ensuing one-year period.

The Academy has entered into leases for office equipment. A schedule of future minimum lease payments under these operating leases are as follows for the years ending June 30:

2019	\$ 2,892
2020	2,892
2021	2,892
2022	2,892
2023	482
	<u>\$12,050</u>

Rental expense for this office equipment was \$3,568 and \$6,336 for the years ended June 30, 2018 and 2017.

NOTE 10 - RESTRICTED NET ASSETS

The temporary restrictions on net assets at June 30, are as follows:

	2018	2017
Facilities use	\$ 74,333	\$ 74,333
Time restricted pledges and grants	82,138	105,749
Program expansion	335	82
	<u>\$ 156,806</u>	<u>\$ 180,164</u>

Permanently restricted net assets consisted of the following at June 30:

	2018	2017
Beneficial interests in agency endowment funds	\$ 148,829	\$ 123,927
Legacy of Laughter	-	13,243
	<u>\$ 148,829</u>	<u>\$ 137,170</u>

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 11 - IN-KIND CONTRIBUTIONS

The following in-kind contributions have been included in unrestricted revenues and expenses in the financial statements for the years ended June 30:

	2018	2017
Included in unrestricted contributions		
Utilities	\$ 56,500	\$ 56,500
Advertising	34,446	39,768
Custodial	27,400	27,400
Production materials	4,886	-
Included in restricted contributions		
Rent	74,333	74,333
Included in benefit events income		
Prizes, fees and materials	<u>677</u>	<u>787</u>
	<u><u>\$ 198,242</u></u>	<u><u>\$ 198,788</u></u>

NOTE 12 - EMPLOYEE BENEFIT PLAN

The Academy sponsors a Simplified Employee Pension Plan under Internal Revenue Code §403(b). The plan allows all employees over the age of twenty-one to participate. The Academy makes discretionary contributions based on a uniform contribution allocation formula. Participant salary reduction contributions are not permitted by the plan; however, participants may make self-directed contributions to their account. The amount of the Academy's contributions to a participant's account for any plan year may not exceed the lesser of 15% of the participant's salary or \$35,000. Total contributions to the plan by the Academy were \$14,959 and \$16,914 for the years ended June 30, 2018 and 2017, respectively.

NOTE 13 - CONTINGENCIES

The Academy receives support from state and local governments. In the event of a significant reduction in the level of this support, the Academy's programs and activities could be affected. In addition, funding received by the Academy from governmental agencies is subject to audit and retroactive adjustment. In management's opinion, no provision for audit or retroactive adjustment is considered necessary.

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 14 - LIQUIDITY

The Academy's activities are primarily funded by performance ticket sales, camp revenues, grants, contributions and its line of credit. In the last few years, there has been unexpected turnover in key management and creative positions. New management is focusing on positioning the Academy for increased excellence and long-term viability. To the extent long-term relationships with significant grantors and donors are not successfully maintained and cultivated, the Academy's sources of working capital may be insufficient. However, the Academy believes the following actions are probable of occurring and will be sufficient to satisfy its liquidity needs for the next 12 months from the issuance of the financial statements:

- Increasing the available line of credit.
- Evaluation and reorganization of personnel and operating systems.
- Increasing emphasis on donor development, including expanding the donor base and re-engaging previous donors.

NOTE 15 - RESTATEMENT OF NET ASSETS

The Academy has restated its previously issued 2017 and 2016 financial statement amounts to correct classification errors related to the presentation and disclosure of endowment funds. Additionally, the Academy changed its method of accounting for costumes and props whereby costs previously expensed when incurred are now capitalized and depreciated over its useful life. The following is a summary of the restatement for 2016:

	Unrestricted	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Net assets as of June 30, 2016	\$ 3,378,106	\$ -	\$ 117,149	\$ 286,980	\$ 3,782,235
Change in accounting	85,114	-	-	-	85,114
Endowment restatement	<u>17,606</u>	<u>146,576</u>	<u>-</u>	<u>(164,182)</u>	<u>-</u>
Net assets as of June 30, 2016 as restated	<u>\$ 3,480,826</u>	<u>\$ 146,576</u>	<u>\$ 117,149</u>	<u>\$ 122,798</u>	<u>\$ 3,867,349</u>

**NASHVILLE ACADEMY THEATRE AND
NASHVILLE CHILDREN'S THEATRE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 16 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The Organization's adoption of the new standard in fiscal 2020 will require quantitative and qualitative financial statement disclosures regarding the Organization's lease arrangements and balance sheet presentation of right of use assets and lease liabilities representative of the Organization's discounted future lease payments. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial statements in the subsequent years.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, that is intended to improve financial reporting relating to liquidity, financial performance and cash flows. More specifically, the changes affect net asset classifications by reflecting two classifications of net assets, one "without donor-imposed restrictions" and one "with donor-imposed restrictions," which differ from the traditional classifications of unrestricted, temporarily restricted, and permanently restricted. In addition, reporting of expenses by both natural and functional classification is required and investment returns must be reflected net of related investment expenses. The cash flow statement is also allowed to be restructured by using the direct method of reporting and there are further disclosures regarding an organization's liquidity. The new standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial statements in the subsequent years.

In August 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 will result in treatment of most government grants as donor-restricted conditional contributions rather than exchange transactions and applies to all entities that make or receive contributions. The new standard also clarifies the criteria for evaluating whether contributions are unconditional or conditional. The Organization does not expect the timing of grant or gift revenue recognition to change significantly as a result of this ASU. The Center will implement ASU 2018-08 in fiscal 2020.

NOTE 17 - SUBSEQUENT EVENTS

The Academy has evaluated subsequent events through January 29, 2019, which is the date the financial statements were available to be issued.