# 2018

## Financial Statements With Auditor's Letters

**Studio Tenn**
**Theatre Company**
Financial Statements
For the years ended
July 31, 2018 and 2017

**Studio Tenn Theatre Company**
Financial Statements
For the years ended
July 31, 2018 and 2017

*Table of Contents*

pHb

**PATTERSON, HARDEE & BALLENTINE, P.C.**

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Studio Tenn Theatre Company

We have audited the accompanying financial statements of Studio Tenn Theatre Company (a nonprofit organization), which comprise the statements of financial position as of July 31, 2018 and 2017, the related statements of activities 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.

**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 July 31, 2018, financial statements referred to above present fairly, in all material respects, the financial position of Studio Tenn Theatre Company as of July 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.

**Prior Period Financial Statements**

The financial statements of Studio Tenn Theatre Company as of July 31, 2017, were audited by other auditors whose report dated August 9, 2018, expressed an unmodified opinion on those statements.

*Patterson Hardee & Ballentine*

January 29, 2019

1889 General George Patton Drive, Suite 200 Franklin, TN 37067 phone: 615-750-5537 fax: 615-750-5543

www.phbcpas.com

## Studio Tenn Theatre Company

Statements of Financial Position

July 31,

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ | 29,637 | $ | 76,614 |
| Promises to give | | 75,000 | | - |
| Prepaid and other | | 52,803 | | 49,488 |
| Capital assets, net | | 135,883 | | 129,267 |
| Total assets | $ | 293,323 | $ | 255,369 |
| **Liabilities** | | | | |
| Line of credit | $ | 25,000 | $ | 100,000 |
| Accounts payable and accrued expenses | | 45,942 | | 75,127 |
| Deferred revenue | | 244,956 | | 197,732 |
| Total liabilities | | 315,898 | | 372,859 |
| **Net deficit** | | | | |
| Unrestricted | | (97,575) | | (117,490) |
| Temporarily restricted | | 75,000 | | - |
| Total net deficit | | (22,575) | | (117,490) |
| Total liabilities and net deficit | $ | 293,323 | $ | 255,369 |

See notes to financial statements.

## Studio Tenn Theatre Company

Statements of Activities
For the years ended July 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Changes in unrestricted net assets** | | |
| Revenues, gains, and other support | | |
| Ticket sales | $ 1,137,668 | $ 1,166,717 |
| Contributions | 457,723 | 530,778 |
| Special Events | 85,363 | 120,443 |
| Other | 36,299 | 16,488 |
| Total revenues, gains, and other support | 1,717,053 | 1,834,426 |
| Expenses | | |
| Programs | 1,456,345 | 1,489,466 |
| Management and general | 122,363 | 155,460 |
| Fundraising | 118,430 | 92,799 |
| Total expenses | 1,697,138 | 1,737,725 |
| Change in unrestricted net assets | 19,915 | 96,701 |
| **Changes in temporarily restricted net assets** | | |
| Contributions | 75,000 | - |
| **Total change** | 94,915 | 96,701 |
| Net deficit at beginning of year | (117,490) | (214,191) |
| Net deficit at end of year | $ (22,575) | $ (117,490) |

See notes to financial statements.

# Studio Tenn Theatre Company

Statements of Cash Flows

For the years ended July 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net deficit | $ 94,915 | $ 96,701 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 66,384 | 41,837 |
| Noncash contributions received | - | (10,000) |
| Changes in: | | |
| Promises to give | (75,000) | 5,000 |
| Prepaid expenses | (3,315) | 47,862 |
| Accounts payable and accrued expenses | (29,185) | (2,351) |
| Deferred revenue | 47,224 | (103,581) |
| Net cash provided by operating activities | 101,023 | 75,468 |
| **Cash flows from investing activities** | | |
| Purchase of capital assets | (73,000) | (121,253) |
| **Cash flows from financing activities** | | |
| Net borrowings (payments) on line of credit | (75,000) | 602 |
| Net decrease in cash | (46,977) | (45,183) |
| Cash at beginning of year | 76,614 | 121,797 |
| Cash at end of year | $ 29,637 | $ 76,614 |
| **Supplemental schedule of noncash investing activities** | | |
| Capital assets acquired through noncash contribution | $ - | $ 10,000 |
| **Supplemental disclosures of cash flow information** | | |
| Cash payments for interest | $ 9,271 | $ 12,700 |

See notes to financial statements.

**Note 1: Summary of Significant Accounting Policies**

**Nature of Activities**
Studio Tenn Theatre Company (the "Organization"), was incorporated in 2009 to use a rich combination of talent from Nashville and Broadway to bring classic works of drama and musical theatre to life in Middle Tennessee; and to provide innovative educational programs designed to entertain, educate, and inspire the rising artists of our unique community.

**Basis of Accounting**
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Individual ticket revenue is recorded after each performance. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted*
Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted*
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. Promises to give are temporarily restricted.

*Permanently Restricted*
Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned and any related investments for general or specific purposes. As of July 31, 2018 and 2017, the Organization did not have any permanently restricted net assets.

**Cash and Cash Equivalents**
For purposes of the statement of cash flows, the Organization considers all unrestricted cash and investment instruments purchased with original maturities of three months or less be to be cash equivalents.

**Capital Assets**
Capital assets are stated at cost, or if donated, at the estimated fair market value as of the date of donation and consist primarily of costumes, sets, and other equipment. Depreciation is provided over the assets' estimated useful lives, generally three to 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.

**Long-Lived Assets**
Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. At July 31, 2018 and 2017, no assets were considered to be impaired.

**Programs**
The Organization's programs consist primarily of ticketed performances. Proceeds received from ticket sales relating to performances to be held in future years are shown as deferred revenue until the event has occurred. The costs related to these performances are expensed when the event occurs.

**Note 1: Summary of Significant Accounting Policies (Continued)**

**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 designated for future periods or restricted by the donor 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 statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The Organization received a promise to give during the current year. The unconditional promise is recorded at its net realizable value at July 31, 2018, and was fulfilled prior to the release of the financial statements.

Donated supplies are recorded based on their estimated fair value at the date of donation. Donated services are recognized as support if they create or enhance nonfinancial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Organization if not donated. Such services are recognized at estimated fair value as support and expense in the period the services were performed. There were no donated services for the year ended July 31, 2018. The Organization received in-kind contributed office space of $72,000 during the year ended July 31, 2017. A number of unpaid volunteers have made significant contributions of their time to assist the Organization in achieving its stated goals. The value of contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

**Fair Values of Financial Instruments**
The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments.

**Functional Allocation of Expenses**
The costs of providing program services 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.

**Advertising**
The Organization uses advertising to promote its programs. Advertising costs are expensed as incurred. For the years ended July 31, 2018 and 2017, advertising and promotions expense was $122,360 and $115,583, respectively.

**Income Taxes**
The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for income tax has been made. Accounting principles generally accepted in the United States of America require the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examinations by the IRS. Management has analyzed the tax positions taken by the Organization and has concluded that as of July 31, 2018 and 2017, no uncertain positions are taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization could be subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The Organization is no longer subject to routine audits by taxing jurisdictions for any tax periods before 2015.

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Estimates**

The preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2: Capital Assets**

Capital assets at July 31 consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Costumes and sets | $ 229,200 | $ 156,200 |
| Furniture and equipment | 19,500 | 19,500 |
| Sound equipment | 4,379 | 4,379 |
| | 253,079 | 180,079 |
| Less accumulated depreciation | (117,196) | (50,812) |
| | $ 135,883 | $ 129,267 |

**Note 3: Line of Credit**

The Organization has a line of credit available with a bank for $100,000 at July 31, 2018 and 2017. The line of credit bears interest at a variable rate of 5.00% plus the prime rate, with a floor of 4.00% (5.00% at July 31, 2018) and is secured by substantially all assets of the Organization. Borrowings outstanding under this line at July 31, 2018 and 2017 were $25,000 and $100,000, respectively. The line of credit matures in November 2020.

**Note 4: Operating Leases**

The Organization leases its main offices under a noncancelable agreement, which expires in December 2019 and requires minimum annual rentals.

The total minimum rental commitment as of July 31, 2018, is due in future years as follows:

| | |
|---|---|
| Year ending July 31: | |
| 2019 | $ 45,940 |
| 2020 | 19,975 |
| | $ 65,915 |

The rent expense under the noncancelable agreement for year ended July 31, 2018, totaled $41,165.

The Organization also utilizes month-to-month leases for its scene shop and storage, as well as in-kind contributed space for its main offices and scene shop during the year ended July 31, 2017.

**Note 5: Liquidity**

The Organization's activities are primarily funded by performance ticket sales, sponsorships, an annual event, contributions, and its line of credit. Two of the Organizations founders have departed in the last 18 months. To the extent long-term relationships with significant sponsors and donors are not successfully maintained and cultivated, the Organization's sources of working capital may be insufficient. However, the Organization 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:

- Evaluation and streamlining of full-time, part-time, seasonal, and independent contractor personnel roles.
- Strategic planning to provide clarity around the Organization's mission, vision, and values.
- Increased emphasis on donor development, including diversifying and expanding the donor base, engaging networks to establish strong corporate relationships, increasing grant applications, and evaluating and acting on the need for more dynamic fundraising personnel.
- Improve marketing efforts, including leveraging a better understanding of effective approaches in marketing to patrons and the broader community, marketing the Organization in addition to the individual productions, and building brand awareness, all while also adjusting production selections and locations that attract large audiences.
- Engaging and expanding key leadership across the Board and artistic function.

**Note 6: Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09, along with the subsequent amendments, supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. In addition, ASU 2014-09 requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing and uncertainty of revenue. ASU 2014-09 was deferred by one year by ASU 2015-14 and will become effective for annual reporting periods beginning after December 15, 2018. The Organization will adopt the provisions of ASU 2014-09 in 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the statement of financial position. ASU 2016-02 is effective for annual reporting period beginning after December 15, 2018. The Organization will adopt the provisions of ASU 2016-02 in 2019.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which 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 subsequent years. It will adopt the provisions of ASU 2016-14 in 2018.

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 Organization will implement ASU 2018-08 simultaneous with adoption of ASU 2014-09 in fiscal 2019.

### Note 7: Subsequent Events

Subsequent events were evaluated through January 29, 2019, which is the date the financial statements were available to be issued.