

CHARLES O. PAUL

CERTIFIED PUBLIC ACCOUNTANT

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June 7, 2023

To the Audit Committee
American Association of Community Theatre

We have audited the financial statements of American Association of Community Theatre for the year ended August 31, 2022, and have issued our report thereon dated May 19, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated to you November 16, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by American Association of Community Theatre are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2022. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciation is based on estimated useful lives or property and equipment. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of unearned revenue is based upon the time of year the revenue is collected as compared to the time services are provided. We evaluated this approach and its affect on the financial statements and found this method of recognition reasonable in the circumstances.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

American Association of Community Theatre

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements noted in the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 19, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. This information is intended solely for the use of the Board of Directors and management of American Association of Community Theatre and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Charles O. Paul, CPA
North Richland Hills, Texas

AMERICAN ASSOCIATION OF COMMUNITY THEATRE

Financial Statements

For the Year Ended August 31, 2019

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, 2019, 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, 2019, 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 2018 financial statements, and our report dated January 9, 2019, 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, 2018, 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
July 9, 2020

AMERICAN ASSOCIATION OF COMMUNITY THEATRE
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2019
WITH COMPARATIVE SUMMARIZED INFORMATION AT
AUGUST 31, 2018

| | <u>2019</u> | <u>2018</u> |
|--|--------------------------------|--------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 663,125 | \$ 626,066 |
| Certificates of deposit | 94,503 | 94,503 |
| Pledges receivable | 22,392 | 33,312 |
| Accounts receivable | 12,644 | 8,072 |
| Inventory | 524 | 1,479 |
| Prepaid expense | 3,587 | 21,065 |
| TOTAL CURRENT ASSETS | <u>796,775</u> | <u>784,497</u> |
| PROPERTY AND EQUIPMENT, NET | 4,258 | 2,990 |
| OTHER ASSETS | | |
| Website, net of accumulated amortization of \$34,897 | 5,958 | 16,172 |
| Security deposit | 400 | 400 |
| RESTRICTED ASSETS | | |
| Restricted cash | 85,924 | 63,541 |
| Restricted long-term investments | 374,135 | 389,826 |
| | <u>460,059</u> | <u>453,367</u> |
| TOTAL ASSETS | <u><u>\$ 1,267,450</u></u> | <u><u>\$ 1,257,426</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 68,201 | \$ 65,489 |
| Deferred revenue | 301,442 | 297,807 |
| TOTAL CURRENT LIABILITIES | <u>369,643</u> | <u>363,296</u> |
| NET ASSETS | | |
| Without donor restrictions | 415,356 | 407,451 |
| With donor restrictions | 482,451 | 486,679 |
| TOTAL NET ASSETS | <u>897,807</u> | <u>894,130</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 1,267,450</u></u> | <u><u>\$ 1,257,426</u></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, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|-------------------------------|-------------------|
| SUPPORT AND REVENUE | | | |
| Memberships | \$ 294,765 | \$ - | \$ 294,765 |
| Advertising - Spotlight | 80,697 | - | 80,697 |
| Corporate partners | 25,258 | - | 25,258 |
| Contributions and support | 17,514 | 61,910 | 79,424 |
| Education | 29,255 | - | 29,255 |
| ASCAP | 48,669 | - | 48,669 |
| Mailing list rental | 7,503 | - | 7,503 |
| Interest and dividends | 1,039 | 4,619 | 5,658 |
| Festival income | 136,733 | 24,400 | 161,133 |
| Other | 5,443 | - | 5,443 |
| Publications | 1,274 | - | 1,274 |
| Net realized and unrealized gains and losses on investments | - | (2,362) | (2,362) |
| Net assets released from restrictions | 92,795 | (92,795) | - |
| Total support and revenue | <u>740,945</u> | <u>(4,228)</u> | <u>736,717</u> |
| EXPENSES | | | |
| Program services | 554,734 | - | 554,734 |
| General and administrative | 178,306 | - | 178,306 |
| | <u>733,040</u> | <u>-</u> | <u>733,040</u> |
| CHANGE IN NET ASSETS | 7,905 | (4,228) | 3,677 |
| NET ASSETS - Beginning of Year | <u>407,451</u> | <u>486,679</u> | <u>894,130</u> |
| NET ASSETS - End of Year | <u>\$ 415,356</u> | <u>\$ 482,451</u> | <u>\$ 897,807</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, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|-------------------------------|-------------------|
| 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>\$ 407,451</u> | <u>\$ 486,679</u> | <u>\$ 894,130</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, 2019
WITH COMPARATIVE SUMMARIZED INFORMATION FOR THE
YEAR ENDED AUGUST 31, 2018

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 3,677 | \$ 153,513 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 1,453 | 633 |
| Amortization | 10,214 | 10,214 |
| Net realized and unrealized (gains) and losses on investments | 2,362 | (37,288) |
| Change in operating assets and liabilities | | |
| Pledges receivable | 10,920 | (3,236) |
| Accounts receivable | (4,572) | 8,675 |
| Prepaid expenses | 17,478 | (11,171) |
| Inventory | 955 | 431 |
| Accounts payable | 2,712 | (17,784) |
| Deferred revenue | 3,635 | 12,538 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>48,834</u> | <u>116,525</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Equipment purchase | (2,721) | - |
| Purchase of certificate of deposit | - | (122) |
| Sale (Purchase) of investments | 13,329 | (4,979) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>10,608</u> | <u>(5,101)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Change in cash restricted to endowment | (22,383) | (21,404) |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>(22,383)</u> | <u>(21,404)</u> |
| NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | 37,059 | 90,020 |
| CASH & CASH EQUIVALENTS - Beginning of year | <u>626,066</u> | <u>536,046</u> |
| CASH & CASH EQUIVALENTS - End of year | <u><u>\$ 663,125</u></u> | <u><u>\$ 626,066</u></u> |
| SUPPLEMENTAL CASH FLOW SCHEDULE: | | |
| Interest received | \$ 1,039 | \$ 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, 2019

| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Total</u> |
|--------------------------------|-----------------------------|---------------------------------------|-------------------|
| Salaries and wages | \$ 160,037 | \$ 70,158 | \$ 230,195 |
| Payroll taxes | 12,363 | 5,050 | 17,413 |
| Employee benefits | <u>-</u> | <u>27,685</u> | <u>27,685</u> |
| Total personnel costs | <u>172,400</u> | <u>102,893</u> | <u>275,293</u> |
| Printing | 38,300 | 519 | 38,819 |
| Postage | 11,073 | 6,889 | 17,962 |
| Regional representative | 3,469 | - | 3,469 |
| Marketing and promotion | 6,904 | - | 6,904 |
| Contract labor | 37,294 | - | 37,294 |
| Materials and supplies | - | 10,829 | 10,829 |
| Travel | 13,884 | 5,671 | 19,555 |
| Telephone and conference calls | - | 1,398 | 1,398 |
| Insurance | - | 2,934 | 2,934 |
| Accounting | - | 6,628 | 6,628 |
| Dues | 409 | - | 409 |
| Office rent | - | 12,445 | 12,445 |
| Merchant service fees | - | 7,259 | 7,259 |
| Internet | - | 1,325 | 1,325 |
| Miscellaneous | - | 10,534 | 10,534 |
| Software | - | 1,693 | 1,693 |
| Advocacy | 2,012 | - | 2,012 |
| Meetings | - | 4,173 | 4,173 |
| Website | 34,009 | - | 34,009 |
| Website amortization | 10,214 | - | 10,214 |
| Awards | 2,370 | - | 2,370 |
| AACT Fest | 11,103 | - | 11,103 |
| Cost of books sold | 955 | - | 955 |
| Education | 23,484 | - | 23,484 |
| Festival | 98,653 | - | 98,653 |
| New play fest | 3,381 | - | 3,381 |
| JK Ayre distributions | 52,000 | - | 52,000 |
| Endowment distributions | 32,820 | - | 32,820 |
| Endowment management fee | <u>-</u> | <u>1,663</u> | <u>1,663</u> |
| | <u>554,734</u> | <u>176,853</u> | <u>731,587</u> |
| Depreciation | <u>-</u> | <u>1,453</u> | <u>1,453</u> |
| | <u>\$ 554,734</u> | <u>\$ 178,306</u> | <u>\$ 733,040</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, 2018

| | Program Services | General and Administrative | Total |
|--------------------------------|---------------------|-------------------------------|-------------------|
| Salaries and wages | \$ 163,793 | \$ 66,183 | \$ 229,976 |
| Payroll taxes | 14,061 | 5,681 | 19,742 |
| Employee benefits | - | 37,185 | 37,185 |
| Total personnel costs | 177,854 | 109,049 | 286,903 |
| 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 |
| | 348,822 | 168,418 | 517,240 |
| Depreciation | - | 991 | 991 |
| | <u>\$ 503,465</u> | <u>\$ 183,465</u> | <u>\$ 686,930</u> |
| Depreciation | | | |

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 two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions 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.

Net assets with donor restrictions 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 and includes 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.

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 July 9, 2020. 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.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restrictions on 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 support without donor restrictions, 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 support with donor restrictions in the period received. When donors' stipulations are met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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, 2019.

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, 2018 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, 2019:

| | <u>2019</u> |
|-------------------------------|-----------------|
| Office and computer equipment | \$17,966 |
| Accumulated depreciation | <u>13,708</u> |
| | <u>\$ 4,258</u> |

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at August 31, 2019:

| | |
|---|-----------------------|
| Mission | \$ 81,997 |
| Festival | <u>400,454</u> |
| Assets accumulated by Endowment as described in Note C: | <u><u>482,451</u></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, 2019 are as follows:

| | |
|-------------------------------------|------------------|
| Balance, August 31, 2018 | \$486,679 |
| Contributions | 76,360 |
| Investment income | 4,619 |
| Endowment event and People's Choice | 9,950 |
| Net appreciation | (2,362) |
| Distributions | (84,820) |
| Management fees and expenses | <u>(7,975)</u> |
| Balance, August 31, 2019 | <u>\$482,451</u> |

NOTE F – LONG-TERM INVESTMENTS

Long-term investments consisted of the following as of August 31, 2019:

| EQUITY SECUTITIES | COST | FAIR VALUE |
|-------------------|------------|------------|
| August 31, 2019 | \$ 222,034 | \$ 374,135 |

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, 2019, there was \$428,702 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, 2019, these balances totaled \$441,399.

NOTE H – 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, 2019 was \$6,468.

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Notes to Financial Statements

NOTE I – SUBSEQUENT EVENT

Subsequent to August 31, 2019, the COVID-19 pandemic has impacted the Association and its membership. This has caused a 53% decline in membership as compared to the prior year. The ultimate economic impact of this event remains to be determined. Management of the Association is confident that the Association will survive this event.