Plano Children's Theatre
d/b/a North Texas Performing Arts

Financial Statements
September 30, 2018

Sutton Frost Cary LLP
Certified Public Accountants

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d/b/a North Texas Performing Arts
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Independent Auditors' Report

The Board of Directors of
Plano Children's Theatre d/b/a North Texas Performing Arts

We have audited the accompanying financial statements of the Plano Children's Theatre d/b/a North Texas Performing Arts (a nonprofit organization) which comprise the statement of financial position as of September 30, 2018, the related statements of activities and cash flows 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 U.S. generally accepted accounting principles; 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 Plano Children's Theatre d/b/a North Texas Performing Arts as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Correction of Error

As described in Note 3 to the financial statements, Plano Children's Theatre d/b/a North Texas Performing Arts' net assets as of October 1, 2017 were restated to correct an error to record an unconditional pledge receivable in the correct accounting period. Our opinion is not modified with respect to that matter.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
April 2, 2019

Plano Children's Theatre
d/b/a North Texas Performing Arts
Statement of Financial Position
September 30, 2018

Assets

Current assets:		
Cash	$	309,901
Unconditional pledges receivable		58,667
Accounts receivable		48,464
Prepaid expenses		181,212
Total current assets		598,244
Noncurrent assets:		
Cash restricted for capital campaign		12,120
Deposits		19,175
Property and equipment, net		1,094,857
Total noncurrent assets		1,126,152
Total assets	$	1,724,396

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued expenses	$	55,177
Deferred revenue		53,680
Current portion of construction note payable		130,472
Current portion of notes payable - related parties		99,167
Total current liabilities		338,496
Noncurrent liabilities:		
Deferred rent and lease incentive		142,267
Line of credit		140,272
Construction note payable, less current portion		178,072
Notes payable - related parties, less current portion		63,897
Total noncurrent liabilities		524,508
Total liabilities		863,004
Net assets:		
Unrestricted		831,442
Temporarily restricted		29,950
Total net assets		861,392
Total liabilities and net assets	$	1,724,396

See notes to financial statements.

Plano Children's Theatre
d/b/a North Texas Performing Arts
Statement of Activities
Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Revenue:			
Tuition, net of discounts			
and scholarships of $334,094	$ 934,838	$ -	$ 934,838
Ticket sales	694,303	-	694,303
Merchandise and concession sales	104,535	-	104,535
Other income	44,979	-	44,979
Total revenue	1,778,655	-	1,778,655
Support:			
Government grants	264,996	-	264,996
Contributions	371,131	-	371,131
Special events, net of direct costs of $39,701	6,366	-	6,366
Released from restrictions	61,645	(61,645)	-
Total support	704,138	(61,645)	642,493
Total revenue and support	2,482,793	(61,645)	2,421,148
Expenses:			
Program services	1,925,253	-	1,925,253
Management and general	268,467	-	268,467
Fundraising	23,354	-	23,354
Total expenses	2,217,074	-	2,217,074
Increase (decrease) in net assets	265,719	(61,645)	204,074
Net assets at beginning of year, as restated	565,723	91,595	657,318
Net assets at end of year	$ 831,442	$ 29,950	$ 861,392

See notes to financial statements.

Plano Children's Theatre
d/b/a North Texas Performing Arts
Statement of Cash Flows
Year Ended September 30, 2018

Cash flows from operating activities:		
Increase in net assets	$	204,074
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization		40,146
Contributions restricted for capital campaign		(75,406)
Changes in operating assets and liabilities:		
Accounts receivable		(17,568)
Unconditional pledges receivable		11,666
Prepaid expenses		(55,218)
Deposits		(16,600)
Accounts payable and accrued expenses		(46,437)
Deferred revenue		12,177
Deferred rent and lease incentive		142,267
Net cash provided by operating activities		199,101
Cash flows from investing activities:		
Decrease in cash restricted for capital campaign		16,728
Purchases of property and equipment		(269,305)
Net cash used by investing activities		(252,577)
Cash flows from financing activities:		
Collections of contributions restricted for capital campaign		75,406
Draws on line of credit		66,000
Payments on line of credit		(728)
Proceeds from construction note payable		164,500
Payments on construction note payable		(40,956)
Proceeds from notes payable - related parties		90,000
Payments on notes payable - related parties		(52,175)
Net cash provided by financing activities		302,047
Net increase in cash		248,571
Cash at beginning of year		61,330
Cash at end of year	$	309,901
Supplemental cash flow information:		
Cash paid during the year for interest	$	33,087

Noncash investing and financing activities:

NTPA financed construction of improvements totaling $99,832 through the issuance of a note payable to a related party

See notes to financial statements.

1. Organization and Activities

Plano Children's Theatre, d/b/a North Texas Performing Arts (NTPA), is a nonprofit organization incorporated in the state of Texas dedicated to developing the character of youth through quality arts education and family entertainment. NTPA's principal activities include theater productions, acting classes, and summer camps provided at locations throughout Dallas, Fairview, Frisco and Plano. NTPA's revenue and support come primarily from tuition and ticket sales, government grants, corporate donors, and contributions from individuals.

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

> *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.
>
> *Temporarily restricted net assets* - Net assets subject to donor or grantor stipulations that will be met by actions of NTPA and/or the passage of time.
>
> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be maintained permanently by NTPA. Generally, the donors of these assets permit NTPA to use all or part of the income earned on related investments for general or specific purpose. There are no permanently restricted net assets at September 30, 2018.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions with donor-imposed restrictions that are met in the same year as the contributions were received are reported as unrestricted net assets.

Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash, accounts receivable and unconditional pledges receivable. NTPA places cash, which at times may exceed the federally insured limits, with high credit quality financial institutions to minimize risk. Accounts at each institution are insured by Federal Deposit Insurance Corporation up to $250,000. At September 30, 2018, NTPA's uninsured balances totaled $93,137. NTPA has not experienced losses on such assets.

Accounts receivable and unconditional pledges receivable are unsecured and due primarily from individuals and government entities. NTPA evaluates the collectability of receivables and maintains allowances for potential losses, if considered necessary. Management considers these accounts to be fully collectible at September 30, 2018.

Contributions and Program Revenue

Unconditional promises to give or pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Contributions and grants are recorded as revenue at the time an unconditional right to the gift has been established and the proceeds are measurable in amount. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated goods are reflected as contributions in the accompanying financial statements at their estimated fair value at date of receipt. Contributed services are reflected in the financial statements at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation.

NTPA received a substantial amount of services donated by citizens interested in NTPA programs. NTPA benefitted from approximately 38,000 unaudited volunteer hours of general labor related to program services, fundraisers and project management. The value of this contributed time is not reflected in the accompanying financial statements because it does not meet the above criteria.

Student tuition and fees are recognized as revenue during the year the related services are rendered. Ticket sales are recognized at the time of the performance. Revenue from pre-sold tickets and tuition is deferred and recognized as revenue in the year in which the performance or class to which they relate occurs.

Functional Allocation of Expenses

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

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Income Taxes

NTPA is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to NTPA's exempt purpose is subject to tax under IRC Section 511. NTPA had no unrelated business income for the year ended September 30, 2018. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing NTPA's tax return and recognition of a tax liability (or asset) if NTPA has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by NTPA, and has concluded that as of September 30, 2018, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements

Property and equipment

NTPA capitalizes property and equipment over $1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporary restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, NTPA reports expirations of donor restrictions when the donated or acquired assets are placed in service. NTPA reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to fifteen years. Leasehold improvements are amortized over the lesser of the lease term or life of the asset.

Deferred Rent and Lease Incentives

NTPA has entered into office leases which include lease incentives, rent abatements and escalating rent over the term of the leases. In accordance with GAAP, rent cost is accounted for on a straight-line basis over the lease term.

Advertising

NTPA expenses advertising costs as they are incurred. Advertising costs for the year ended September 30, 2018 totaled $47,756.

Risks and Economic Outlook

NTPA operates in North Texas and, as such, is dependent upon the community's interest in children's theater and the willingness and ability of donors in the area to continue supporting NTPA. The ability of NTPA's donors to continue giving amounts comparable with prior years may be dependent, among other things, upon current and future overall economic conditions.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification.

NTPA considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the NTPA's financial position and changes in net assets.

In 2016, the FASB issued ASU 2016-14 *Presentation of Financial Statements of Not-For-Profit Entities* to improve the presentation of financial statements of not-for-profit entities. The key qualitative and quantitative changes in the ASU address the following: net asset classification, information presented about a not-for-profit entity's liquidity and availability of resources, investment return presentation, disclosure of expense allocation methodology, presentation of expenses by nature and function in one location in the financial statements, and the presentation of the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The effective date of ASU 2014-09 is for annual periods beginning after December 15, 2018 for the majority of not-for-profit organizations.

In 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) Subject to Topic 958, Not-for-Profit Entities or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is *not a factor* for determining whether an agreement is within the scope of that guidance. The standard is effective for annual periods beginning after December 15, 2018 for the majority of not-for-profit entities. The changes in this standard should generally be applied on a retrospective basis in the year that it is first applied.

In 2016, the FASB issued its leasing standard in ASU 2016-02*, Leases (ASC Topic 842)* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use (ROU) assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2019.

NTPA is currently assessing the impact that adopting this new guidance will have on the financial statements.

3. Prior Year Restatement

NTPA's net assets as of October 1, 2017 were restated to record an unconditional promise to give totaling $25,000 received during the year ended September 30, 2017 but not recorded. The correction of the error increased pledges receivable and temporarily restricted net assets by $25,000 as of October 1, 2017.

4. Property and Equipment

Property and equipment consist of the following at September 30, 2018:

Signage	$ 7,718
Leasehold improvements	290,254
Construction in progress	820,514
Furniture and equipment	74,779
Website	1,595
	1,194,860
Less: accumulated depreciation and amortization	(100,003)
Property and equipment, net	$ 1,094,857

Construction in progress consists of a project to construct leasehold improvements to the new NTPA headquarters at Willow Bend. NTPA is responsible for the design, coordination and management of the project. Once the project is complete, the associated costs will be transferred to leasehold improvements and amortized over the lease term.

5. Line of Credit

NTPA has a line of credit with Legacy Bank, allowing for borrowings up to $300,000 with a maturity date of December 2019. Interest accrues at the greater of 5% or the *Wall Street Journal* Prime Rate plus 1% (6.50% at September 30, 2018). The line of credit is secured by accounts receivable and equipment. The outstanding balance on the line of credit at September 30, 2018 was $140,272.

6. Construction Note Payable

NTPA has a note payable to Legacy Bank for construction of improvements at the Willow Bend location. Interest only payments are due each month at the *Wall Street Journal* Prime Rate plus 1.25% (6.50% at September 30, 2018) with borrowings up to $350,000 through July 2018 when the note converts to a term loan. Upon conversion, payments of principal and interest of $12,250 are due monthly. A final balloon payment is due in June 2020. The loan is collateralized by improvements. The outstanding balance on the construction note at September 30, 2018 was $308,544.

The future maturities of the construction note are as follows for the years ending September 30:

2019	$ 130,472
2020	178,072

7. Notes Payable – Related Parties

In 2009, the executive director loaned funds to NTPA to assist with cash flow. The note payable is due in installments of $500 per month and accrues interest at 4% per year. At September 30, 2018 the outstanding balance on the note plus accrued interest was $13,407.

During 2018, the executive director loaned funds to NTPA totaling $90,000 used for construction of improvements at Willow Bend. The note payable is unsecured with no specified repayment terms and accrues interest at 5.5% per year. At September 30, 2018, the outstanding balance on the note was $70,000. The balance of this note is classified as a current liability.

NTPA has an unsecured note payable to the chief operating officer (CEO) for construction of improvements at Willow Bend paid by the CEO on behalf of NTPA. The note payable is due in installments of $1,786 per month including principal and interest. The interest rate is 5.5% and matures in 2022. At September 30, 2018, the outstanding balance on the note was $79,657.

The future maturities of the notes payable to related parties are as follows for the years ending September 30:

2019	$ 99,167
2020	20,209
2021	19,520
2022	20,621
2023	3,547

8. Temporarily Restricted Net Assets

Temporarily restricted net assts are available for the following purposes at September 30, 2018:

Time restricted	$ 16,666
Fairview Capital Campaign	43
Frisco Capital Campaign	9,341
Plano Capital Campaign	2,736
Other	1,164
	$ 29,950

9. Leases

NTPA leases office, rehearsal and performance space and office equipment under non-cancelable operating lease agreements that expire at various dates through January 2027. The leases include lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the lease term on a straight-line basis. Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows for the years ending September 30:

2019	$ 243,426
2020	252,331
2021	256,785
2022	288,212
2023	302,893
Thereafter	929,703

Rent expense totaled $370,443 for the year ended September 30, 2018.

10. Grant Compliance

Grants require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Although a possibility, the board of directors deems the contingency remote.

11. Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.