

# **The Children's Theatre of Cincinnati**

**Financial Statements  
May 31, 2021 and 2020, and  
Independent Auditors' Report**

**THE CHILDREN'S THEATRE OF CINCINNATI**  
**May 31, 2021 and 2020**

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## Independent Auditors' Report

To the Board of Trustees  
The Children's Theatre of Cincinnati  
Cincinnati, Ohio

We have audited the accompanying financial statements of The Children's Theatre of Cincinnati (a nonprofit organization), which comprise the statements of financial position as of May 31, 2021 and 2020, and the related statements of activities, 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 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 The Children's Theatre of Cincinnati as of May 31, 2021 and 2020, 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.

**Independent Auditors' Report  
(Continued)**

**Effect of Adopting a New Accounting Standard**

As discussed in Note 1, The Children's Theatre of Cincinnati has adopted Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to that matter.

*Barnes, Dennig & Co., Ltd.*

November 29, 2021  
Cincinnati, Ohio

## THE CHILDREN'S THEATRE OF CINCINNATI

### Statements of Financial Position May 31, 2021 and 2020

	2021	2020
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 910,798	\$ 707,269
Pledges, grants, and other receivables	142,548	136,011
Prepaid expenses and other assets	127,691	138,187
Total current assets	1,181,037	981,467
Investments	4,442,426	3,387,815
Investments restricted by donors for endowment	2,579,489	1,944,997
Property and equipment, net	5,312,730	5,581,487
Other assets	10,500	10,500
Total assets	\$ 13,526,182	\$ 11,906,266
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 194,672	\$ 238,891
Deferred revenue	353,002	229,003
Total current liabilities	547,674	467,894
Paycheck Protection Program loan	354,870	355,200
Total liabilities	902,544	823,094
 <b>Net Assets</b>		
Without donor restrictions		
Undesignated	64,826	86,352
Net investment in property and equipment	5,312,730	5,581,487
Board-designated endowment	4,442,426	3,387,815
Total net assets without donor restrictions	9,819,982	9,055,654
With donor restrictions	2,803,656	2,027,518
Total net assets	12,623,638	11,083,172
Total liabilities and net assets	\$ 13,526,182	\$ 11,906,266

See accompanying notes to financial statements

**THE CHILDREN'S THEATRE OF CINCINNATI**

**Statement of Activities  
Year Ended May 31, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues and other support</b>			
Performance income	\$ 74,681	\$ -	\$ 74,681
Academy income	120,083	-	120,083
Contributions, grants, and sponsorships	1,435,907	228,973	1,664,880
Forgiveness of Paycheck Protection Program loan	355,200	-	355,200
Event income, net of expenses	15,928	-	15,928
Investment return, net	1,216,341	707,092	1,923,433
Other revenues	17,788	-	17,788
In-kind contributions	15,300	-	15,300
Net assets released from restrictions	159,927	(159,927)	-
Total revenues and other support	<u>3,411,155</u>	<u>776,138</u>	<u>4,187,293</u>
<b>Expenses</b>			
Program services			
TCT MainStage	1,456,260	-	1,456,260
TCT Academy	343,228	-	343,228
TCT on Tour	95,005	-	95,005
Summer camps and other programs	52,648	-	52,648
Total program services	<u>1,947,141</u>	<u>-</u>	<u>1,947,141</u>
Support services			
Management and general	423,133	-	423,133
Fundraising	276,553	-	276,553
Total support services	<u>699,686</u>	<u>-</u>	<u>699,686</u>
Total expenses	<u>2,646,827</u>	<u>-</u>	<u>2,646,827</u>
<b>Change in net assets</b>	764,328	776,138	1,540,466
<b>Net assets, beginning of year</b>	<u>9,055,654</u>	<u>2,027,518</u>	<u>11,083,172</u>
<b>Net assets, end of year</b>	<u><u>\$ 9,819,982</u></u>	<u><u>\$ 2,803,656</u></u>	<u><u>\$ 12,623,638</u></u>

See accompanying notes to financial statements

**THE CHILDREN'S THEATRE OF CINCINNATI**

**Statement of Activities  
Year Ended May 31, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues and other support</b>			
Performance income	\$ 1,022,487	\$ -	\$ 1,022,487
Academy income	279,100	-	279,100
Contributions, grants, and sponsorships	1,292,523	294,466	1,586,989
Event income, net of expenses	45,034	-	45,034
Investment return, net	401,645	103,667	505,312
Other revenues	55,564	-	55,564
In-kind contributions	215,957	-	215,957
Net assets released from restrictions	384,970	(384,970)	-
Total revenues and other support	<u>3,697,280</u>	<u>13,163</u>	<u>3,710,443</u>
<b>Expenses</b>			
Program services			
TCT MainStage	2,258,648	-	2,258,648
TCT Academy	333,569	-	333,569
TCT on Tour	300,271	-	300,271
Summer camps and other programs	232,057	-	232,057
Total program services	<u>3,124,545</u>	<u>-</u>	<u>3,124,545</u>
Support services			
Management and general	445,993	-	445,993
Fundraising	281,963	-	281,963
Total support services	<u>727,956</u>	<u>-</u>	<u>727,956</u>
Total expenses	<u>3,852,501</u>	<u>-</u>	<u>3,852,501</u>
<b>Change in net assets</b>	(155,221)	13,163	(142,058)
<b>Net assets, beginning of year</b>	<u>9,210,875</u>	<u>2,014,355</u>	<u>11,225,230</u>
<b>Net assets, end of year</b>	<u>\$ 9,055,654</u>	<u>\$ 2,027,518</u>	<u>\$ 11,083,172</u>

See accompanying notes to financial statements

**THE CHILDREN'S THEATRE OF CINCINNATI**

**Statement of Functional Expense  
Year Ended May 31, 2021**

	<b>Program Services</b>				<b>Support Services</b>			<b>Total Expenses</b>
	<b>TCT MainStage</b>	<b>TCT Academy</b>	<b>TCT on Tour</b>	<b>Summer Camps and Other Programs</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	
Wages and benefits	\$ 1,009,747	\$ 222,396	\$ 36,120	\$ -	\$ 1,268,264	\$ 256,931	\$ 236,852	\$ 1,762,047
Production labor	9,350	2,288	2,600	5,250	19,488	-	-	19,488
Production costs	61,733	4,686	9,646	1,829	77,894	-	-	77,894
Depreciation	120,905	38,990	21,932	38,990	220,817	34,116	26,805	281,738
In-kind gifts	15,300	-	-	-	15,300	-	-	15,300
Occupancy	100,574	15,781	9,129	584	126,068	15,795	6,638	148,500
Marketing	67,921	37,067	9,660	4,723	119,372	1,241	63	120,676
Administrative	60,636	20,812	2,920	1,272	85,640	32,165	6,195	124,000
Professional fees	10,094	1,207	2,998	-	14,300	82,564	-	96,863
Interest expense	-	-	-	-	-	322	-	322
<b>Total expenses</b>	<b>\$ 1,456,260</b>	<b>\$ 343,228</b>	<b>\$ 95,005</b>	<b>\$ 52,648</b>	<b>\$ 1,947,141</b>	<b>\$ 423,133</b>	<b>\$ 276,553</b>	<b>\$ 2,646,827</b>

See accompanying notes to financial statements



**THE CHILDREN'S THEATRE OF CINCINNATI**

**Statement of Functional Expense  
Year Ended May 31, 2020**

	Program Services				Support Services			Total Expenses
	TCT MainStage	TCT Academy	TCT on Tour	Summer Camps and Other Programs	Total Program Services	Management and General	Fundraising	
Wages and benefits	\$ 1,026,150	\$ 231,294	\$ 195,483	\$ -	\$ 1,452,927	\$ 295,432	\$ 232,879	\$ 1,981,238
Production labor	295,082	3,298	13,380	79,193	390,953	-	-	390,953
Production costs	206,814	170	28,613	15,432	251,029	-	-	251,029
Depreciation	142,017	38,603	21,714	38,603	240,937	33,777	26,539	301,253
In-kind gifts	159,957	-	-	56,000	215,957	-	-	215,957
Occupancy	185,574	13,948	9,619	6,320	215,461	20,392	7,292	243,145
Marketing	138,056	25,484	17,048	24,723	205,311	-	3,536	208,847
Administrative	85,086	13,640	10,525	4,724	113,975	48,617	7,039	169,631
Professional fees	5,451	327	61	257	6,096	41,821	-	47,917
Interest expense	14,461	6,805	3,828	6,805	31,899	5,954	4,678	42,531
Total expenses	<u>\$ 2,258,648</u>	<u>\$ 333,569</u>	<u>\$ 300,271</u>	<u>\$ 232,057</u>	<u>\$ 3,124,545</u>	<u>\$ 445,993</u>	<u>\$ 281,963</u>	<u>\$ 3,852,501</u>

See accompanying notes to financial statements

## THE CHILDREN'S THEATRE OF CINCINNATI

### Statements of Cash Flows Years Ended May 31, 2021 and 2020

	2021	2020
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 1,540,466	\$ (142,058)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	281,738	301,253
Net unrealized and realized gains on investments	(1,525,027)	(211,822)
Forgiveness of Paycheck Protection Program loan	(355,200)	-
Changes in:		
Pledges, grants, and other receivables	(6,537)	34,289
Prepaid expenses and other assets	10,496	(36,238)
Accounts payable and accrued expenses	(44,219)	25,937
Deferred revenue	123,999	(148,741)
Cash provided (used) by operating activities	25,716	(177,380)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(12,981)	(74,140)
Proceeds from sale of investments	2,103,589	4,315,484
Purchases of investments	(2,267,665)	(2,545,977)
Cash provided (used) by investing activities	(177,057)	1,695,367
<b>Cash flows from financing activities</b>		
Borrowings on line of credit	100,000	-
Principal payments on line of credit	(100,000)	-
Borrowings of Paycheck Protection Program loan	354,870	355,200
Principal payments on note payable	-	(1,735,561)
Cash provided (used) by financing activities	354,870	(1,380,361)
<b>Net change in cash and cash equivalents</b>	203,529	137,626
<b>Cash and cash equivalents, beginning of year</b>	707,269	569,643
<b>Cash and cash equivalents, end of year</b>	\$ 910,798	\$ 707,269
<b>Supplemental Information</b>		
Cash paid for interest	\$ 322	\$ 42,531

See accompanying notes to financial statements

# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of Operations*

The Children's Theatre of Cincinnati (the "Organization") is a 501(c)(3) organization based in Cincinnati, Ohio. The Organization's mission is to educate, entertain, and engage audiences of all ages through professional theatrical productions and arts education programming. The Children's Theatre of Cincinnati was incorporated under the laws of the state of Ohio in 1948 as a nonstock, nonprofit corporation.

The Children's Theatre of Cincinnati is an educational and performance-based organization. Performance income, academy income, contributions, grants, sponsorships, and in-kind contributions represent the majority of support and revenue received by the organization. Other support and revenue sources include; but are not limited to the following: event income and miscellaneous revenues. The Children's Theatre of Cincinnati conducts its operations primarily in the Greater Cincinnati area and, therefore, is subject to risks from changes in local economic conditions. A downturn in the local economy could cause a decrease in support and revenue.

The Children's Theatre of Cincinnati's vision is to awaken a lifelong love of theatre in children and the young at heart. Today, the Organization brings art to life for audiences through three key programs: TCT MainStage at the Taft Theatre (TCT MainStage); TCT Academy; and TCT on Tour, including WorkShops (TCT on Tour).

#### *Financial Statement Presentation*

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net assets with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

#### *Cash and Cash Equivalents*

The Organization considers all highly liquid investments with an original maturity date of less than three months to be cash equivalents. At May 31, 2021 and 2020, cash equivalents consisted primarily of money market accounts. Cash in bank deposit accounts, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

#### *Accounts Receivable*

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. If necessary, the Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts past due more than 30 days are considered to be delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. No allowance for doubtful accounts has been recorded as of May 31, 2021 and 2020.

# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements (Continued)

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Fair Value Measurements*

Under applicable GAAP for fair value measurements and disclosures, a three-level hierarchy is established for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 – Inputs are unadjusted quoted prices for identical assets in active markets; Level 2 – Inputs are observable quoted prices for similar assets in active markets; Level 3 – Inputs are unobservable and reflect management's best estimates of what market participants would use as fair value.

#### *Investments and Investment Return*

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes dividends, interest and realized and unrealized gains and losses on investments, net of fees.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as investment return and net assets with donor restrictions and then released from restrictions. Other investment return is reflected in the statement of activities as with donor restrictions or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

#### *Property and Equipment*

The Organization records property and equipment at cost or, if donated or impaired, at fair value at the time of the gift or determination. The Organization calculates depreciation on a straight-line basis over the estimated useful lives of the related assets. The Organization follows the policy of expensing its costs of new sets and props. Although the set possibly may be re-used, it is uncertain which will be re-used and when re-use with occur. Production equipment used in more than one theatrical production is capitalized. The Organization has a capitalization limit of \$500.

In accordance with applicable GAAP for property and equipment, the Organization assesses the recoverability of the carrying amount of property and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in operating conditions. Based on its most recent analysis, the Organization believes no impairments existed at May 31, 2021 and 2020.

# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements (Continued)

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Revenue Recognition*

The Organization identifies a contract with a customer for revenue recognition when there is approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and the collectability of consideration is probable. The Organization evaluates each contract to determine the number of distinct performance obligations in the contract, which requires the use of judgment. To determine the proper revenue recognition method, the Organization evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as a single or more than one performance obligation.

Revenue from customers is primarily recognized from performances and academy services. In 2021, approximately \$33,000 of revenue from contracts with customers was recognized at a point in time and \$162,000 was recognized over time.

Performances include single-performance sales and multiple-performance subscription sales for both live and digital shows. Contracts related to single performances consist of one performance obligation with revenue recognized at the time of performance delivery, for live shows, or over the available viewing period, for digital shows, using the time elapsed method. Contracts related to subscription sales consist of multiple performance obligations with revenue proportionally recognized for each show in the subscription series at the time of the performance delivery.

Academy services consist of performing arts instruction. Contracts contain a single performance obligation as the promise to transfer the service is not separately identifiable from other promises in the contract. Revenue is recognized as the service is provided to the customer using the time elapsed method, an input measure, as the Organization considers it to best depict the simultaneous consumption and delivery of its services. Academy services range from a single day to a multi-month period. The determination of the method by which the Organization measures its progress towards the satisfaction of its performance obligation requires judgment.

The transaction price for performances and academy services is stated in the contracts and known at time of contract inception. Variable consideration in the form of discounts and financial assistance is available to eligible customers and is reflected as a reduction of gross fees. Fees are typically collected in advance of performance or academy service date. Cancellation provisions vary by contract, but most transactions are cancellable, and refunds may be available for services not provided. The Organization has elected the policy to exclude from the measurement of the transaction price all taxes assessed by a government authority related to revenue-producing transactions and collected from a customer.

Fees paid in advance for customer contracts represent contract liabilities and are recorded as deferred revenues. Amounts billed but unpaid are contract assets and recorded as accounts receivable.

# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements (Continued)

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Contributions and Grants***

The Organization records gifts of cash and other assets received without donor stipulations as revenues and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenues and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, 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. Unconditional gifts having donor restrictions which are satisfied in the period the gift is received are reported as revenue and net assets with donor restrictions and then released from restrictions. Conditional gifts having donor restrictions and for which the conditions and restrictions are met in the same period are recorded as net assets without donor restrictions.

The Organization reports gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, it reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional promises to give expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue.

Conditional promises to give are recognized as revenues when the conditions on which they depend are substantially met. Support funded by grants is recognized as the Organization incurs outlays eligible for reimbursement under the grant agreement. Grant funds received in excess of expenses incurred result in the recognition of a refundable advance (liability). Allowable expenses incurred in excess of grant funds received results in recognition of a grant receivable (asset).

#### ***In-kind Contributions***

The Organization receives certain donated media support, rentals and goods, which are recorded at fair value as contribution revenue and an expense in the financial statements.

#### ***Advertising***

The Organization expenses advertising costs as incurred. For the years ended May 31, 2021 and 2020, advertising expense was \$120,676 and \$208,847, respectively.

# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements (Continued)

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Income Taxes*

The Organization is a nonprofit organization that is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization's IRS Forms 990 and 990-T are subject to review and examination by federal and state authorities. The Organization believes it has appropriate support for any tax positions taken, and therefore, do not have any uncertain income tax positions that are material to the financial statements.

#### *Functional Allocation of Expenses*

The cost of program and supporting services activities have been summarized on a functional classification basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. Such allocations are determined by management on an equitable basis. The most significant allocations were occupancy and depreciation, which were allocated based on utilization, and wages and related benefits, which were allocated based on time and effort.

#### *Use of Estimates*

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### *Effect of Adopting New Accounting Standard*

During 2021, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* ("Topic 606"), which replaces most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the ASU using the modified retrospective approach to all contracts that were not completed as of the beginning of 2021. Results for reporting periods beginning after May 31, 2020 are presented under Topic 606, while prior period amounts and disclosures are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The most significant impact of the adoption of Topic 606 is expanded disclosures for revenue recognition.

# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements (Continued)

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Recently Issued Accounting Standards***

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Organization's year ending May 31, 2023.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard increases transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. These include separate presentation in the statement of activities, disaggregation by type, policy and qualitative information about monetization and utilization, description of valuation techniques and inputs used to arrive at a fair value measure, and donor-imposed restrictions associated with the contributed nonfinancial assets. This standard will be effective for the Organization's fiscal year ended June 30, 2022.

The Organization is currently in the process of evaluating the impact of adoption of these ASUs on the financial statements.

#### ***Reclassifications***

Certain 2020 amounts have been reclassified to conform to the 2021 presentation.

#### ***Subsequent Event Evaluation***

The Organization has evaluated subsequent events through November 29, 2021, which is the date the financial statements were available to be issued.



## THE CHILDREN'S THEATRE OF CINCINNATI

### Notes to Financial Statements (Continued)

#### NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at May 31:

	2021	2020
Cash and cash equivalents	\$ 910,798	\$ 707,269
Pledges, grants, and other receivables	142,548	136,011
Investments	4,442,426	3,387,815
Investments restricted by donors for endowment	2,579,489	1,944,997
Total financial assets at year end	8,075,261	6,176,092
Less those unavailable for general expenditure within one year due to:		
Donor-imposed restrictions:		
Endowment funds	(2,579,489)	(1,944,997)
Time or purpose restrictions	(224,167)	(82,521)
Board designations - endowment	(4,442,426)	(3,387,815)
Plus endowment spending policy appropriated for use in the coming year:		
Board-designated endowment	208,000	161,729
Total financial assets available for expenditure	\$ 1,037,179	\$ 922,488

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the Board of Trustees to serve as an endowment, as described in Note 9. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure. Although the Organization does not intend to spend from its Board-designated endowment fund, other than amounts appropriated for general expenditure as part of its annual appropriation and approval process, amounts from the Board-designated endowment could be made available, if necessary.

As part of the Organization's liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage liquidity needs, the Organization has a revolving line of credit in the amount of \$500,000. See Note 6.

## THE CHILDREN'S THEATRE OF CINCINNATI

### Notes to Financial Statements (Continued)

#### NOTE 3 PLEDGES, GRANTS, AND OTHER RECEIVABLES

Pledges, grants, and other receivables consisted of the following as of May 31:

	2021	2020
ArtsWave grant	\$ 57,450	\$ 57,450
Ohio Arts Council grant	25,511	39,757
Performances and academy services	1,920	14,682
Other receivables	57,667	24,122
	\$ 142,548	\$ 136,011

All amounts are expected to be collected within one year.

#### NOTE 4 INVESTMENTS AT FAIR VALUE

Investments at fair value consisted of the following as of May 31:

	2021	2020
<b>Level 1:</b>		
Equity mutual funds	\$ 5,860,939	\$ 4,246,425
Fixed income mutual funds	1,160,976	1,086,387
	\$ 7,021,915	\$ 5,332,812

The following table provides a reconciliation of investments reported within the statements of financial position to the total of the same such amounts shown in the investments at fair value table above as of May 31:

	2021	2020
Investments	\$ 4,442,426	\$ 3,387,815
Investments restricted by donors for endowment	2,579,489	1,944,997
	\$ 7,021,915	\$ 5,332,812

There were no valuations using Level 2 or Level 3 inputs.

Fair values for equity and fixed income mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Investment securities are exposed to various risks, such as credit, market and interest rate. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statements of financial position at May 31, 2021 and 2020. However, the diversification of the Organization's investments among various asset classes should mitigate the impact of any adverse changes on any one asset class. Investments are managed by the Board of Trustees with advice and assistance from investment professionals.

## THE CHILDREN'S THEATRE OF CINCINNATI

### Notes to Financial Statements (Continued)

#### NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at May 31:

	2021	2020
Building and building improvements	\$ 5,588,429	\$ 5,588,429
Theatre productions equipment	481,413	481,413
Land	389,640	389,640
Office furniture and equipment	316,825	316,825
Computer hardware and software	179,896	176,915
Leasehold improvements	31,968	31,968
Construction in progress	10,000	-
	6,998,171	6,985,190
Less: accumulated depreciation	(1,685,441)	(1,403,703)
	\$ 5,312,730	\$ 5,581,487

#### NOTE 6 LINE OF CREDIT

The Organization has a \$500,000 revolving line of credit agreement that expires on March 24, 2022. There was no outstanding balance on the line at May 31, 2021 and 2020. Interest accrues at LIBOR plus 2.00% and is payable monthly.

#### NOTE 7 PAYCHECK PROTECTION PROGRAM LOAN

On May 1, 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$355,200 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization elected to apply debt guidance pursuant to Accounting Standards Codification 470 to recognize the PPP Loan as debt until the loan is legally forgiven and made a policy election to classify the full amount of the PPP Loan as long-term debt. On January 15, 2021, the Organization received notification from the PPP Lender that the loan was fully forgiven, at which point the Organization recognized a gain on the extinguishment of debt in the statement of activities. The outstanding balance for this note payable was \$-0- and \$355,200 at May 31, 2021 and 2020, respectively.

## THE CHILDREN'S THEATRE OF CINCINNATI

### Notes to Financial Statements (Continued)

#### NOTE 7 PAYCHECK PROTECTION PROGRAM LOAN (CONTINUED)

On January 29, 2021, the Organization qualified for and received a second loan pursuant to the Economic Aid to Hard-Hit Small Business, Nonprofits, and Venues Act (Economic Aid Act) Paycheck Protection Program, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$354,870 (the "second PPP Loan"). The second PPP Loan bears interest at a fixed rate of 1.0% per annum, is unsecured and guaranteed by the SBA and has a term of five years with the first principal and interest payment due 10 months plus 24 weeks after the date the loan was received. The principal amount of the second PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the second PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization elected to apply debt guidance pursuant to Accounting Standards Codification 470 to recognize the PPP Loan as debt until the loan is legally forgiven and made a policy election to classify the full amount of the second PPP Loan as long-term debt. The Organization intends to apply for forgiveness of the second PPP Loan with respect to these covered expenses. To the extent that all or part of the second PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum. Payment of principal and interest commences upon notification from the SBA and are due on or before the maturity date in January 2026. The outstanding balance for this note payable was \$354,870 and \$-0- as of May 31, 2021 and 2020, respectively.

#### NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods as of May 31:

	2021	2020
Donor-restricted endowments (including appreciation above original gift amount of \$1,318,776) subject to spending policy and appropriation for:		
Arts Education Bequest	\$ 2,182,087	\$ 1,656,600
Jay Depenbrock Scenic Design Chair	199,715	144,934
Lottie Crane Choreography Chair	197,687	143,463
Total endowments	2,579,489	1,944,997
Restricted as to purpose:		
Emery Theatre Project	100,000	-
Ticket underwriting	44,545	27,236
Arts education	36,622	44,597
Other	28,000	5,688
Tour underwriting	14,000	-
Workshops	1,000	-
New website	-	5,000
Total restricted as to purpose	224,167	82,521
Total net assets with donor restrictions	\$ 2,803,656	\$ 2,027,518

## THE CHILDREN'S THEATRE OF CINCINNATI

### Notes to Financial Statements (Continued)

#### NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or the occurrence of other events specified by the donors during 2021 and 2020 as follows:

	2021	2020
Purpose restriction fulfilled:		
Arts education	\$ 87,075	\$ 128,905
Other	42,688	7,558
Re-imagined season	25,000	-
New website	5,000	40,000
Ticket underwriting	164	107,307
Tour underwriting	-	51,050
Art bus	-	25,000
New facility capital campaign	-	14,950
Workshops	-	6,200
Diversity/Inclusion initiative	-	4,000
	\$ 159,927	\$ 384,970

#### NOTE 9 ENDOWMENTS

The Organization's endowment consists of donor-restricted and board-designated endowment funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

##### ***Interpretation of Relevant Law***

The Organization's Board of Trustees follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides guidance on matters concerning the governance and management of donor-restricted endowment funds. Under UPMIFA, the original value of donated gifts to the donor-restricted endowment and the original value of subsequent gifts are classified as net assets with donor restrictions (a time restriction in perpetuity). Accumulated investment return from the donor-restricted endowment is classified as net assets with donor restrictions (a purpose restriction) until those amounts are appropriated for expenditure by the Board of Trustees.

**THE CHILDREN'S THEATRE OF CINCINNATI**

**Notes to Financial Statements  
(Continued)**

**NOTE 9 ENDOWMENTS (CONTINUED)**

The endowment net asset composition by type of fund is as follows as of May 31:

	<u>2021</u>	<u>2020</u>
Without donor restrictions:		
Board-designated endowment	<u>\$ 4,442,426</u>	<u>\$ 3,387,815</u>
With donor restrictions		
Donor-restricted endowments, at historical value required to be maintained in perpetuity	1,318,776	1,318,776
Accumulated net appreciation of endowments required to be maintained in perpetuity	<u>1,260,713</u>	<u>626,221</u>
Total with donor restrictions	<u>2,579,489</u>	<u>1,944,997</u>
Total endowments	<u><u>\$ 7,021,915</u></u>	<u><u>\$ 5,332,812</u></u>

The changes in endowment net assets for the years ended May 31 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
Endowment net assets - 5/31/2019	\$ 5,014,187	\$ 1,924,130
Contributions	-	-
Investment return, net	401,670	103,667
Distributions for note payoff	(1,620,842)	-
Appropriated earnings	<u>(407,200)</u>	<u>(82,800)</u>
Endowment net assets - 5/31/2020	3,387,815	1,944,997
Contributions	-	-
Investment return, net	1,216,340	707,092
Appropriated earnings	<u>(161,729)</u>	<u>(72,600)</u>
Endowment net assets - 5/31/2021	<u><u>\$ 4,442,426</u></u>	<u><u>\$ 2,579,489</u></u>

# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements (Continued)

### NOTE 9 ENDOWMENTS (CONTINUED)

#### *Investment Policy*

The Organization has adopted an investment policy for endowment assets that attempts to provide for the preservation of capital with a reasonable amount of long-term growth without undue exposure risk. The overall financial objectives of the endowment are (1) to support the current and future operations of the Organization and (2) to preserve and enhance the purchasing power of the endowment. To accomplish these goals, the endowment aims to generate total annual returns from investments, net of fees, between 6-8% and preferably greater than its spending rate over the long term.

The Board intends to meet the stated long-term investment objectives through equity-focused allocation and broad diversification. The day-to-day management of the endowment will be delegated to professional managers to provide access to a wider investment opportunity and a deeper team of investment professionals. The professional managers will manage the endowment based on expected asset allocations and rebalancing identified by the Finance Committee of the Board of Trustees.

#### *Spending Policies*

The Corbett Arts Education donor-restricted endowment has a mandatory spending requirement under the gift agreement of five percent of the recent three-year average of the endowment's market value as calculated annually at the first day of the fiscal year. The appropriated earnings are to be used by the Organization to support arts education. The gift agreement also provides for an outside committee to periodically review the Organization's operations and, if not satisfied, request changes to the operations, which, if uncorrected, could potentially lead to a request for return of funds.

For the Jay Deppenbrock Scenic Design Chair donor-restricted endowment, Lottie Crane Choreography Chair donor-restricted endowment, and Board-designated endowment, the Organization has a policy of appropriating for distribution up to five percent of the recent three-year average of the endowment's market value as calculated annually at the first day of the fiscal year. For 2021 and 2020, the Board of Trustees approved an increase in the spending policy amount to seven percent. In establishing this policy, the Organization considers the long-term expected return on its endowment. The appropriated earnings from the donor-restricted endowment are to be used by the Organization to support specific staff positions while the Board-designated endowment earnings can be used to support any operating needs.

# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements (Continued)

### NOTE 10 RETIREMENT PLANS

The Organization has a 403(b)-retirement plan that covers substantially all full-time, non-union employees. Eligible participants may make voluntary tax-deferred contributions and are eligible for discretionary employer profit-sharing contributions after one year of service. The Organization's Board of Trustees approved a discretionary contribution equal to 2% of eligible compensation for 2021 and 2020. Expenses related to the 403(b) retirement plan were \$23,242 and \$19,423 in 2021 and 2020, respectively.

In addition, the Organization contributes to a multi-employer pension plan ("the Plan") (Legal Name: Cincinnati Stage Employees Local 5 Pension Plan, EIN: 31-0329926, Plan No. 001) under the terms of a collective bargaining agreement that covers employees of Cincinnati Stage Employees Local No. 5. The Plan provides fixed retirement payments on the basis of the credits earned by the participating employees. The risks of participating in multi-employer plans are different from those of a single-employer plan. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers. If the Organization chooses to stop participating in the multi-employer plan, then the Organization may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Organization operates under a collective bargaining agreement that expires on September 30, 2022 and requires 8% of union wages be made to this plan for 2021 and 2020. The Organization's contributions to the Plan were \$-0- in 2021 and \$9,877 in 2020. There have been no significant changes that affect the comparability of the 2021 and 2020 contributions. Based on information as of December 31, 2020 and 2019, the year end of the plan, the Organization's contributions made to Cincinnati Stage Employees Local No. 5 were not more than 5% of the total contributions received by the plan. The Plan's funded status of 112% and 103% in 2021 and 2020, respectively, is for the years ended December 31, 2021 and 2020,

Under the same collective bargaining agreement, the Organization is required to contribute 5% of union wages to the International Alliance of Theatrical Stage Employees (I.A.T.S.E) Annuity Plan. Contributions were \$-0- in 2021 and \$6,182 in 2020.

### NOTE 11 OPERATING LEASES

The Organization leases warehouse space under a non-cancelable operating lease that expires in January 2026. Rent expense under operating leases was \$39,596 in 2021 and \$38,420 in 2020.

Future minimum lease payments are as follows:

2022	\$	40,772
2023		41,980
2024		43,252
2025		44,556
2026		30,312
		<hr/>
	\$	<u>200,872</u>



# THE CHILDREN'S THEATRE OF CINCINNATI

## Notes to Financial Statements (Continued)

### NOTE 12 EVENT INCOME

The Organization reports event income net of direct costs as the events are not considered ongoing and major activities of the Organization. Event income, net of expenses consisted of the following for the years ending May 31:

	<u>2021</u>	<u>2020</u>
Event proceeds - gross	\$ 30,207	\$ 85,980
Direct costs of events	<u>(14,279)</u>	<u>(40,946)</u>
	<u>\$ 15,928</u>	<u>\$ 45,034</u>

### NOTE 13 COMMITMENTS

The Organization plans to purchase and renovate a facility in Cincinnati to create a performance space for its productions ("Emery Theatre Project"). In April 2021, the Organization signed a purchase agreement for a building with an amount of \$698,970 due at closing. The Organization has a one-year due diligence period, which can be extended for up to two additional periods through April 24, 2023, during which time it can terminate the agreement and be released from all further obligations. The estimated cost of the due diligence period is approximately \$2,800,000. At May 31, 2021, the Organization was committed to approximately \$1,000,000 of the total estimated design and pre-construction amount.

### NOTE 14 COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy. Consequently, there was disruption in the Organization's programs resulting in negative impacts to its performance and academy revenues in 2021 and 2020.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Organization's business and financial results will depend on future developments, including the duration and spread of the outbreak within the market in which the Organization operates and the related impact on consumer confidence and spending, all of which are highly uncertain.