

ARTS IN THE ARMED FORCES, INC.

**Financial Statements
for the years ended
December 31, 2018
and
December 31, 2017**

Independent Auditor's Report

To the Board of Directors of
Arts in the Armed Forces, Inc.

We have audited the accompanying financial statements of Arts in the Armed Forces, Inc. which comprise the statement of financial position as of December 31, 2018 and December 31, 2017 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.

Auditor's 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 audits 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 Arts in the Armed Forces, Inc. as of December 31, 2018 and December 31, 2017 and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Condon O'Meara McGinty & Donnelly LLP

May 29, 2019

ARTS IN THE ARMED FORCES, INC.

Statement of Financial Position

Assets

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Current assets		
Cash	\$ 396,286	\$ 343,041
Contributions receivable	208,353	15,596
Prepaid expenses	<u>-</u>	<u>4,458</u>
Total current assets	604,639	363,095
Security deposit	2,800	2,439
Office equipment, at cost, net	<u>3,490</u>	<u>-</u>
Total assets	<u>\$ 610,929</u>	<u>\$ 365,534</u>

Liabilities and Net Assets

Current liabilities		
Accrued expenses	\$ 39,364	\$ 17,268
Payroll taxes payable	<u>3,940</u>	<u>3,550</u>
Total liabilities	<u>43,304</u>	<u>20,818</u>
Net assets		
Without donor restrictions	557,625	300,106
With donor restrictions	<u>10,000</u>	<u>44,610</u>
Total net assets	<u>567,625</u>	<u>344,716</u>
Total liabilities and net assets	<u>\$ 610,929</u>	<u>\$ 365,534</u>

See notes to financial statements.

ARTS IN THE ARMED FORCES, INC.

Statement of Functional Expenses

Year Ended December 31, 2018
(with comparative totals for 2017)

	2018				2017 Total
	Program Services	Supporting Activities		Total	
		Management and General	Fund Raising		
Payroll and related expenses					
Salaries	\$ 129,069	\$ 19,979	\$ 8,479	\$ 157,527	\$ 114,212
Payroll taxes	13,116	2,030	862	16,008	9,170
Total payroll and related expenses	<u>142,185</u>	<u>22,009</u>	<u>9,341</u>	<u>173,535</u>	<u>123,382</u>
Other expenses					
Occupancy	12,868	1,992	845	15,705	17,607
Entertainment and production	102,031	-	-	102,031	122,036
Professional fees	53,202	50,163	6,492	109,857	33,707
Travel and meetings	85,389	1,743	-	87,132	105,412
Advertising and promotional	5,158	7,946	5,345	18,449	12,647
Telephone and internet	5,081	805	310	6,196	1,610
Insurance	6,284	972	413	7,669	9,015
Dues and subscriptions	-	-	-	-	3,132
Video and photography	21,281	3,376	1,316	25,973	11,982
Office expenses	18,700	2,894	1,229	22,823	10,242
Other	40,924	6,507	2,621	50,052	12,955
Depreciation	-	873	-	873	-
Total other expenses	<u>350,918</u>	<u>77,271</u>	<u>18,571</u>	<u>446,760</u>	<u>340,345</u>
Total expenses	<u>\$ 493,103</u>	<u>\$ 99,280</u>	<u>\$ 27,912</u>	<u>\$ 620,295</u>	<u>\$ 463,727</u>

See notes to financial statements.

ARTS IN THE ARMED FORCES, INC.

Statement of Functional Expenses

Year Ended December 31, 2017

	<u>Program Services</u>	<u>Supporting Activities</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fund Raising</u>	
Payroll and related expenses				
Salaries	\$ 45,685	\$ 22,842	\$ 45,685	\$ 114,212
Payroll taxes	<u>3,668</u>	<u>1,834</u>	<u>3,668</u>	<u>9,170</u>
Total payroll and related expenses	<u>49,353</u>	<u>24,676</u>	<u>49,353</u>	<u>123,382</u>
Other expenses				
Occupancy	7,043	3,521	7,043	17,607
Entertainment and production	122,036	-	-	122,036
Professional fees	13,483	6,741	13,483	33,707
Travel and meetings	104,013	1,399	-	105,412
Advertising and promotional	5,059	2,529	5,059	12,647
Telephone and internet	644	322	644	1,610
Insurance	3,606	1,803	3,606	9,015
Dues and subscriptions	1,253	626	1,253	3,132
Video and photography	5,991	-	5,991	11,982
Office expenses	4,096	2,049	4,097	10,242
Other	-	8,429	4,526	12,955
Total other expenses	<u>267,224</u>	<u>27,419</u>	<u>45,702</u>	<u>340,345</u>
Total expenses	<u>\$ 316,577</u>	<u>\$ 52,095</u>	<u>\$ 95,055</u>	<u>\$ 463,727</u>

See notes to financial statements.

ARTS IN THE ARMED FORCES, INC.

Statement of Cash Flows

	Year Ended December 31	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Increase in net assets	\$ 222,909	\$ 122,267
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	873	-
(Increase) in contributions receivable	(192,757)	(14,895)
(Increase) decrease in prepaid expenses	4,458	(4,458)
(Increase) decrease in security deposit	(361)	1,936
Increase in accrued expenses	22,096	9,768
Increase in payroll taxes payable	390	1,150
Net cash provided by operating activities	<u>57,608</u>	<u>115,768</u>
Cash flows (used in) investing activities		
Purchase of office equipment	<u>(4,363)</u>	<u>-</u>
Net increase in cash	53,245	115,768
Cash, beginning of year	<u>343,041</u>	<u>227,273</u>
Cash, end of year	<u>\$ 396,286</u>	<u>\$ 343,041</u>

See notes to financial statements.

ARTS IN THE ARMED FORCES, INC.**Notes to Financial Statements
December 31, 2018 and December 31, 2017****Note 1 – Nature of organization**

Arts in the Armed Forces, Inc. (“AITAF”) is a Delaware not-for-profit corporation, incorporated in 2009, whose mission is to provide high-quality theater programming for active duty service members, veterans, military support staff and their families.

Note 2 – Summary of significant accounting policies**Basis of presentation**

Net assets are revenue, expenses, gains, losses, and other support that are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of AITAF are classified and reported as follows:

Without donor restrictions

Net assets whose use is not restricted by donors.

With donor restrictions**Temporary donor restrictions**

Net assets whose use by AITAF has been limited by the donors (a) for later periods of time and/or (b) for specified purposes. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with temporary donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Perpetual donor restrictions

Net assets with donor restrictions include net assets subject to donor-imposed stipulations that they be maintained perpetually. As of December 31, 2018 and December 31, 2017, AITAF did not have net assets with perpetual donor restrictions.

Cash equivalents

AITAF considers highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Contributions receivable

Contributions including unconditional promises to give (“pledges”) are recognized as revenue in the period received and when the conditions on which they depend have been substantially met.

ARTS IN THE ARMED FORCES, INC.**Notes to Financial Statements (continued)
December 31, 2018 and December 31, 2017****Note 2 – Summary of significant accounting policies (continued)**Allowance for doubtful accounts

AITAF has determined that it does not have any receivables as of December 31, 2018 and 2017 that may not be collectible. Such estimate is based on management's experience, the aging of the receivables, subsequent receipts and current economic conditions.

Property and equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of donation. AITAF capitalizes expenditures for property and equipment above a nominal amount and that have a useful life greater than one year. Depreciation is computed on the straight-line method over the estimated useful lives of the assets which range from five to ten years.

Contributions

Contributions received including unconditional promises to give, are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or absence of donor restrictions, at the time of receipt or promise. Donor-restricted contributions that have their restriction met within the fiscal year are reported as unrestricted revenue.

Bequests are recorded as revenue when a legally binding obligation is received and when a fair value can be reasonably determined.

In-kind contributions

Organizations are required to recognize contributions of goods and services if they create or enhance non-financial assets, or require specialized skills, are provided by individuals possessing those skills and typically would have been purchased if not provided in-kind. In-kind contributions are reflected in the financial statements at the estimated fair market value at the time of donation. The fair market value of goods and services totaling \$22,289 and \$26,200 have been included in the financial statements for the years ended December 31, 2018 and December 31, 2017, respectively, and primarily include contributions of performance space, professional fees and donated travel. Board members and other individuals volunteer their time and perform a variety of tasks that assist the AITAF. These services do not meet the criteria to be recorded and have not been included in the financial statements.

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated between the programs and supporting activities benefited. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques primarily consisting of salary and wages and time and effort reporting.

ARTS IN THE ARMED FORCES, INC.

**Notes to Financial Statements (continued)
December 31, 2018 and December 31, 2017**

Note 2 – Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Concentrations of credit risk

AITAF's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash and contributions receivable. AITAF places its cash with what it believes to be a quality financial institution. At times, cash balances may be in excess of the FDIC insurance limit. However, AITAF has not experienced any losses in these accounts to date. AITAF monitors the collectibility of its receivables on an ongoing basis. AITAF believes no significant concentrations of credit risk exist with respect to its cash.

Subsequent events

AITAF has evaluated events and transactions for potential recognition or disclosure through May 29, 2019, which is the date the financial statements were available to be issued.

Note 3 – Liquidity and availability of financial assets

AITAF's working capital and cash flows vary due to timing of payments received for contributions and other revenue items.

The following is a summary of AITAF's financial assets as of December 31, 2018 that are available to pay expenditures within one year of the statement of financial position date:

Cash		\$ 396,286
Contributions receivable		<u>208,353</u>
Total		<u>\$ 604,639</u>

Note 4 – Net assets with temporary donor restrictions

Net assets with temporary donor restrictions are available for the purposes of funding future programs and are to be released from donor restrictions by incurring expenses to satisfy the purposes specified by the donors or the passage of time.

<u>Description</u>	<u>Balance at December 31, 2017</u>	<u>Contributions</u>	<u>Released From Restrictions</u>	<u>Balance at December 31, 2018</u>
Future programs	<u>\$ 44,610</u>	<u>\$ 10,000</u>	<u>\$ (44,610)</u>	<u>\$ 10,000</u>

ARTS IN THE ARMED FORCES, INC.

**Notes to Financial Statements (continued)
December 31, 2018 and December 31, 2017**

Note 5 – Office license agreement

AITAF occupies office space under a license agreement that expires on August 31, 2019 at a monthly rate of \$1,400. Occupancy expense totaled \$15,705 and \$17,607 for the years ended December 31, 2018 and 2017, respectively.

Note 6 – Tax status

AITAF is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). In addition, AITAF has been determined by the Internal Revenue Service to be a publicly supported organization, and not a private foundation under the meaning of Section 509(a)(1) of the Code. AITAF qualifies for maximum charitable contribution deductions for donors.