

AMERICAN THEATRE ORGAN SOCIETY

FINANCIAL STATEMENTS

JULY 31, 2013

BROWN, *NELMS* & Co., CPAs

CERTIFIED PUBLIC ACCOUNTANTS

300 Finance Avenue

Peachtree City, Georgia 30269

AMERICAN THEATRE ORGAN SOCIETY
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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

November 7, 2013

To the Board of Directors of
American Theatre Organ Society

We have reviewed the accompanying statement of assets, liabilities, and net assets—modified cash basis of American Theatre Organ Society (a nonprofit organization) as of July 31, 2013 and the related statements of revenues, expenses, and other changes in net assets—modified cash basis, and cash flows—modified cash basis, for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such as opinion.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements.

Our responsibility is to conducted our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the modified cash basis of accounting, as described in Note 1.

Brown, Nelms & Co., CPAs

BROWN, NELMS & CO., CPAs
Certified Public Accountants
Peachtree City, Georgia 30269

AMERICAN THEATRE ORGAN SOCIETY
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
JULY 31, 2013

ASSETS

CURRENT ASSETS	<u>2013</u>
Cash and cash equivalents	\$ 182,376
Investments	1,775,089
Inventory	<u>500</u>
TOTAL CURRENT ASSETS	<u>1,957,965</u>
PROPERTY AND EQUIPMENT	
Office equipment and furniture	3,468
Less: Accumulated depreciation	<u>(2,293)</u>
TOTAL PROPERTY AND EQUIPMENT	<u>1,175</u>
OTHER ASSET	
Endowment loan receivable	<u>15,000</u>
TOTAL ASSETS	<u>\$ 1,974,140</u>

NET ASSETS

NET ASSETS	
Unrestricted net assets	\$ 703,550
Temporarily restricted net assets	53,329
Permanently restricted net assets	<u>1,217,261</u>
TOTAL NET ASSETS	<u>\$ 1,974,140</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANTS' REVIEW REPORT

AMERICAN THEATRE ORGAN SOCIETY
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS
FOR THE YEAR ENDING JULY 31, 2013

	<u>UNRESTRICTED</u>	<u>RESTRICTED FUNDS</u>		<u>TOTAL</u>
		<u>PERMANENTLY RESTRICTED BOARD DESIGNATED ENDOWMENT FUND</u>	<u>TEMPORARILY RESTRICTED BOARD DESIGNATED GEORGE WRIGHT MEMORIAL FELLOWSHIP FUND</u>	<u>2013</u>
REVENUES, GAINS, AND OTHER SUPPORT				
Membership dues	\$ 138,367	\$ -	\$ -	\$ 138,367
Communications and publications	23,694	-	-	23,694
Annual convention	14,729	-	-	14,729
Endowment gifts	35,414	-	-	35,414
Contribution income	427,065	130,000	-	557,065
Miscellaneous income	10,064	-	-	10,064
Investment and interest income	28,542	78,505	225	107,272
Tuition	1,770	-	-	1,770
Net assets released from restrictions	<u>21,857</u>	<u>(20,107)</u>	<u>(1,750)</u>	<u>-</u>
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	<u>701,502</u>	<u>188,398</u>	<u>(1,525)</u>	<u>888,375</u>
OPERATING EXPENSES				
Board of directors and executives	85,410	-	-	85,410
Youth programs	54,647	-	-	54,647
Marketing	39,467	-	-	39,467
Membership	13,056	-	-	13,056
Convention	43,397	-	-	43,397
Communications	99,400	-	-	99,400
Endowment grants	25,245	-	-	25,245
Archive Donation	<u>318,393</u>	<u>-</u>	<u>-</u>	<u>318,393</u>
TOTAL OPERATING EXPENSES	<u>\$ 679,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 679,015</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANTS' REVIEW REPORT

AMERICAN THEATRE ORGAN SOCIETY
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS
FOR THE YEAR ENDING JULY 31, 2013

	<u>UNRESTRICTED</u>	<u>RESTRICTED FUNDS</u>		<u>TOTAL</u>
		<u>PERMANENTLY RESTRICTED BOARD DESIGNATED ENDOWMENT FUND</u>	<u>TEMPORARILY RESTRICTED BOARD DESIGNATED GEORGE WRIGHT MEMORIAL FELLOWSHIP FUND</u>	<u>2013</u>
OTHER EXPENSES				
Awards	\$ 904	\$ -	\$ -	\$ 904
Bank charges	13,707	-	-	13,707
Depreciation	586	-	-	586
Insurance	3,024	-	-	3,024
Investment expenses	2,953	8,173	-	11,126
Grant writing	995	-	-	995
Office expense	3,256	-	-	3,256
Postage	2,100	-	-	2,100
Printing	3,892	-	-	3,892
Professional fees	5,441	-	-	5,441
Taxes, licenses and bonds	135	-	-	135
Telephone and communications	2,031	-	-	2,031
Travel and entertainment	<u>639</u>	<u>-</u>	<u>-</u>	<u>639</u>
TOTAL OTHER EXPENSES	<u>39,663</u>	<u>8,173</u>	<u>-</u>	<u>47,836</u>
TOTAL EXPENSES	<u>718,678</u>	<u>8,173</u>	<u>-</u>	<u>726,851</u>
CHANGE IN NET ASSETS	(17,176)	180,225	(1,525)	161,524
NET ASSETS - beginning of year	<u>720,726</u>	<u>1,037,036</u>	<u>54,854</u>	<u>1,812,616</u>
NET ASSETS - end of year	<u>\$ 703,550</u>	<u>\$ 1,217,261</u>	<u>\$ 53,329</u>	<u>\$ 1,974,140</u>

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANTS' REVIEW REPORT

AMERICAN THEATRE ORGAN SOCIETY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JULY 31, 2013

	2013
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 161,524
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	586
Donation of asset	318,393
Unrealized gain on investments	(31,695)
Realized gain on investments	(21,564)
NET CASH PROVIDED BY OPERATING ACTIVITIES	427,244
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income received	(2,115)
Proceeds from sale of investments	722,002
Net investment proceeds/(purchases)	(1,025,571)
NET CASH USED IN INVESTING ACTIVITIES	(305,684)
NET INCREASE IN CASH	121,560
CASH AT BEGINNING OF PERIOD	60,816
CASH AT END OF PERIOD	\$ 182,376

SEE ACCOMPANYING NOTES AND INDEPENDENT ACCOUNTANTS' REVIEW REPORT

AMERICAN THEATRE ORGAN SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JULY 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The American Theatre Organ Society (the Society) was established for the purpose of (1) the preservation and enhancement of the theatre organ; (2) to further public appreciation of the theatre pipe organ and its music with educational programs and concerts; (3) to encourage talented musicians to preserve the art of theatre organ playing, through competitions and awards; and (4) to encourage skilled organ builders and technicians to preserve the art of theatre pipe organ building and maintenance through educational seminars, written books and articles, and on-the-job training of aspiring pipe organ builders and technicians.

Membership in the Society is voluntary. There are eight classes of membership ranging from Regular to Life Member. Membership levels vary based on the dues that the member chooses to pay. The Society also offers a Student membership for younger members. A member is entitled to one vote and one copy of each regularly issued membership publication and may serve on the Board of Directors.

Basis of Accounting

The Society's policy is to prepare its financial statements on the modified cash basis of accounting; consequently, contributions and other revenues are recognized when received rather than when promised or earned, and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred.

The Society classifies its net assets, revenues and expenses, gains and losses based on the existence or absence of imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets - Unrestricted net assets are not subject to imposed stipulations and are available for current operations.

Temporarily restricted net assets - Temporarily restricted net assets are subject to imposed stipulations that will be met either by actions of the Society and/or the passage of time. As imposed stipulations or time restrictions are fulfilled, temporarily restricted net assets are reclassified as unrestricted.

Permanently restricted net assets - Permanently restricted net assets include assets for which the donor has stipulated that the contributions be maintained in perpetuity. Imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

Cash and Cash Equivalents

For purposes of these financial statements, the Society considers all highly liquid investments, with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include checking accounts, money markets, and savings accounts.

AMERICAN THEATRE ORGAN SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JULY 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment

Property and equipment are recorded at cost. For financial reporting purposes, property and equipment are depreciated using the straight line method over their estimated useful lives of 5-7 years. The Society considers any piece of equipment that has a useful life greater than one year a depreciable asset. When assets are sold or retired, the cost and related accumulated depreciation are removed from the appropriate accounts, and any resulting gain or loss is included in operations.

Revenue Recognition

Member dues are billed bi-monthly and recognized as revenue on the date that payment is received.

Income Taxes

The Society is an exempt organization as defined by section 501(c)(3) of the Internal Revenue Code. Therefore, income taxes are not reflected in these financial statements.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Collections

The archival collection consist of materials held for educational and curatorial purposes. Collection items are capitalized at cost, if purchased, and at fair market value at the date of accession, if donated. During the year ended July 31, 2013, the archival collection was donated to the University of Oklahoma, a facility deemed to have sufficient space and archival capabilities to complete a fully usable and digitized library and archive for use by students and others interested in the theatre organ and its history. The fair value of the collection was approximately \$318,000.

NOTE 2 - BOARD DESIGNATED FUNDS

Endowment Fund

As of February 2, 1997, the Board of Directors designated permanently restricted net assets as a general endowment fund to support the mission of the Society.

AMERICAN THEATRE ORGAN SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JULY 31, 2013

NOTE 2 - BOARD DESIGNATED FUNDS - CONTINUED

The Endowment Fund is maintained in a separate account. Endowment funds may be distributed each year. No more than ninety percent of the accrued earnings on the Endowment Fund principal, directly or indirectly, may be used for grants. Earnings are defined as accrued interest and/or dividends on the principal amount. At July 31, 2013, there was one loan of \$15,000 outstanding from the Endowment Fund, as described in Note 6. The Society no longer allows loans to be issued from this fund.

The Society has retained Synovus Securities, Inc. to manage the Endowment Fund. The Society has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. The Endowment Fund assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation protected rate of return that has sufficient liquidity to make an annual distribution, while growing the fund if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Changes in Endowment Fund as of July 31, 2013 are as follows:

Endowment Fund Activity	Total
Assets, Beginning of year	\$ 1,037,036
Investment income	40,754
Net appreciation	40,808
Net withdrawals/ additions	109,894
Investment expense	(11,231)
Total	<u>\$ 1,217,261</u>

George Wright Memorial Fellowship Fund

The Board of Directors has designated temporarily restricted net assets to provide funds to support youth attendance at the annual convention. Accrued income may be used to fund the program. The fund is maintained in a separate account from other assets.

Changes in George Wright Memorial Fellowship Fund as of July 31, 2013 are as follows:

George Wright Memorial Fellowship Fund Activity	Total
Assets, Beginning of year	\$ 54,854
Investment income	2,116
Net depreciation	(2,005)
Net withdrawals/ additions	(1,636)
Total	<u>\$ 53,329</u>

Reserve Account

The Board of Directors has designated unrestricted net assets to provide funds for general operations. The fund is maintained in a separate account from other assets.

AMERICAN THEATRE ORGAN SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JULY 31, 2013

NOTE 2 - BOARD DESIGNATED FUNDS - CONTINUED

Changes in Reserve Account as of July 31, 2013 are as follows:

Reserve Account Activity	Total
Assets, Beginning of year	\$ 362,850
Investment income	15,661
Net appreciation	14,395
Net withdrawals/ additions	145,024
Investment expense	<u>(4,345)</u>
Total	<u>\$ 533,585</u>

NOTE 3 - INVESTMENTS

At July 31, 2013, the aggregate cost and fair value of investments were as follows:

	2013	
	Cost	Fair Value
Investments	<u>\$ 1,695,319</u>	<u>\$ 1,775,089</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

The Society adopted ASC Topic 820, Fair Value Measurements and Disclosures, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

AMERICAN THEATRE ORGAN SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JULY 31, 2013

NOTE 4 - FAIR VALUE MEASUREMENTS - CONTINUED

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Common stocks, corporate bonds, and U.S. government securities: Valued at the closing price reported in the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the plan at year end.

Fixed income investments: Valued at the closing price reported on the active market on which the individual securities are traded.

Mortgage backed securities: Comprised of two main categories consisting of agency issued debt and mortgage pass-throughs. Agency issued debt securities are generally valued in a manner similar to U.S. governments securities. Mortgage pass-throughs are generally valued using dealer quotations.

The following sets forth by level, within the fair value hierarchy, the Society's assets at fair value as of July 31, 2013:

	Level 1	Level 2	Level 3	Total
Common stocks				
Value stocks	562,612	-	-	562,612
Blend stocks	324,690	-	-	324,690
Mutual funds				
Cash	67,944	-	-	181,946
Bond funds	546,474	-	-	546,474
Fixed income investments				
Government and government sponsored entity bonds	197,190	-	-	197,190
International bonds	29,829	-	-	29,829
Mortgage backed securities	-	<u>46,350</u>	-	<u>46,350</u>
Total assets at fair value	<u>\$ 1,728,739</u>	<u>\$ 46,350</u>	<u>\$ -</u>	<u>\$ 1,775,089</u>

NOTE 5 - MAJOR DONORS

A substantial amount of the Society's donations were provided by one donor. This donor accounted for approximately 56% of the revenues, gains, and other support for the year ended July 31, 2013.

AMERICAN THEATRE ORGAN SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JULY 31, 2013

NOTE 6 - ENDOWMENT LOAN

During the Fiscal year ending April 30, 2011, the Society loaned \$15,000 to the New York Theatre Organ Society. This loan bears an interest rate of 5.25% and was due February 2013. During the fiscal year ending July 31, 2013, the loan was extended and is now due August 2014. The balance is held in Long-Term Notes receivable. The loan is secured by one 4-manual 26-rank Robert Morton theatre pipe organ and any related parts that form the instrument.

NOTE 7 - SUBSEQUENT EVENTS

In accordance with ASC 855, the Society evaluated subsequent events through November 7, 2013, the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.