

Artists Repertory Theatre

Financial Statements

June 30, 2018 and 2017

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| REPORT OF THE TREASURER | 1 |
| INDEPENDENT AUDITOR'S REPORT | 2 |
| FINANCIAL STATEMENTS | |
| STATEMENTS OF FINANCIAL POSITION | 4 |
| STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2018 | 5 |
| STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2017 | 6 |
| STATEMENTS OF CASH FLOWS | 7 |
| NOTES TO FINANCIAL STATEMENTS | 8 |
| SUPPLEMENTALRY INFORMATION | |
| STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2018 | 16 |
| STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2017 | 17 |

ARTISTS REPERTORY THEATRE
Report of the Treasurer
For the year ended June 30, 2018

The financial statements and other information contained in this report have been prepared by management, which is responsible for the information's integrity and objectivity. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and are deemed to present fairly the financial position of Artists Repertory Theatre and the changes in its net assets and cash flows for the fiscal year ended June 30, 2018.

As a means of fulfilling its responsibility for the integrity of financial information included in this report, management relies on a system of internal controls established to ensure, within reasonable limits, that assets are safeguarded against loss or unauthorized use, that transactions are properly recorded and executed in accordance with management's authorization, and that the accounting records can be relied upon to prepare financial statements in accordance with generally accepted accounting principles. This system of internal controls is reviewed and modified as needed in conjunction with the preparation of this report.

The Executive Committee of the Board of Trustees meets periodically with management and the independent accountants to review accounting, auditing, internal accounting controls, and financial reporting matters, and to ensure that all responsibilities are fulfilled with regard to the objectivity and integrity of the Theatre's financial statements. The Executive Committee of the Board of Trustees also reviews the scope and results of the Theatre's audit, and current and emerging accounting and financial requirements and practices affecting the Theatre.

Cyrus M. Vafi
Treasurer
Board of Trustees

Mike Barr
Board Chairman
Board of Trustees

Independent Auditor's Report

**To the Board of Directors
Artists Repertory Theatre
Portland, Oregon**

Report on the Financial Statements

We have audited the accompanying financial statements of Artists Repertory Theatre, which comprise the statements of financial position as of June 30, 2018 and 2017, and 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 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 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 statements of financial position of Artists Repertory Theatre as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional support, revenue and expense on pages 13-14 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Richard Winkel, CPA

September 20, 2018

ARTISTS REPERTORY THEATRE
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

| | 2018 | 2017 |
|---|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,688,505 | \$ 242,436 |
| Contributions and grants receivable | 90,712 | 94,252 |
| Accounts receivable | 16,568 | 46,055 |
| Notes receivable, current | 22,500 | - |
| Deferred charges | 95,180 | 111,194 |
| Other assets | 69,139 | 64,776 |
| Total current assets | 1,982,604 | 558,713 |
| Notes receivable, long term | 11,250 | - |
| Property and equipment, net | 6,180,518 | 6,202,038 |
| Total assets | \$ 8,174,372 | \$ 6,760,751 |
| LIABILITIES | | |
| Current liabilities: | | |
| Line of credit | \$ - | \$ 195,000 |
| Notes payable, related party, current portion | - | 354,299 |
| Notes payable, current portion | - | 103,546 |
| Accounts payable | 125,345 | 515,896 |
| Accrued payroll and expenses | 18,829 | 379,361 |
| Deferred income | 389,269 | 407,775 |
| Total current liabilities | 533,443 | 1,955,877 |
| Notes payable, related party | - | 50,000 |
| Notes payable | - | 2,745,089 |
| Total liabilities | 533,443 | 4,750,966 |
| NET ASSETS | | |
| Unrestricted | 7,276,603 | 1,525,392 |
| Temporarily restricted | 364,326 | 484,393 |
| Total net assets | 7,640,929 | 2,009,785 |
| Total liabilities and net assets | \$ 8,174,372 | \$ 6,760,751 |

See the accompanying notes to these financial statements

ARTISTS REPERTORY THEATRE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
|---------------------------------------|-------------------------|-----------------------------------|-------------------------|
| Operating revenues and other support | | | |
| Production income | \$ 864,883 | \$ - | \$ 864,883 |
| Contributions and grants | 8,235,012 | 11,073 | 8,246,085 |
| In-kind contributions | 39,620 | 4,744 | 44,364 |
| Special event revenue | 218,798 | - | 218,798 |
| Rental income | 267,756 | - | 267,756 |
| Other income | 141,854 | - | 141,854 |
| Net assets released from restrictions | <u>135,884</u> | <u>(135,884)</u> | <u>-</u> |
| Total Support and Revenue | <u>9,903,807</u> | <u>(120,067)</u> | <u>9,783,740</u> |
| Operating expenses | | | |
| Production | 2,252,637 | - | 2,252,637 |
| Marketing | 492,053 | - | 492,053 |
| Fundraising | 354,972 | - | 354,972 |
| Management and general | <u>1,052,934</u> | <u>-</u> | <u>1,052,934</u> |
| Total operating expenses | <u>4,152,596</u> | <u>-</u> | <u>4,152,596</u> |
| Change in Net Assets | 5,751,211 | (120,067) | 5,631,144 |
| Net Assets, Beginning of Year | <u>1,525,392</u> | <u>484,393</u> | <u>2,009,785</u> |
| Net Assets, End of Year | <u>\$ 7,276,603</u> | <u>\$ 364,326</u> | <u>\$ 7,640,929</u> |

See the accompanying notes to these financial statements

ARTISTS REPERTORY THEATRE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
|---------------------------------------|---------------------|-----------------------------------|---------------------|
| Operating revenues and other support | | | |
| Production income | \$ 898,550 | \$ - | \$ 898,550 |
| Contributions and grants | 1,681,203 | 475,291 | 2,156,494 |
| In-kind contributions | 34,001 | - | 34,001 |
| Special event revenue | 110,538 | - | 110,538 |
| Rental income | 211,958 | - | 211,958 |
| Other income | 78,505 | - | 78,505 |
| Net assets released from restrictions | <u>24,694</u> | <u>(24,694)</u> | <u>-</u> |
| Total support and revenue | <u>3,039,449</u> | <u>(24,694)</u> | <u>3,490,046</u> |
| Operating expenses | | | |
| Production | 2,124,887 | - | 2,124,887 |
| Marketing | 465,787 | - | 465,787 |
| Fundraising | 310,684 | - | 310,684 |
| Management and general | <u>600,905</u> | <u>-</u> | <u>600,905</u> |
| Total operating expenses | <u>3,502,263</u> | <u>-</u> | <u>3,502,263</u> |
| Change in net assets | (462,814) | 450,597 | (12,217) |
| Net assets, beginning of year | <u>1,988,206</u> | <u>33,796</u> | <u>2,022,002</u> |
| Net assets, end of year | <u>\$ 1,525,392</u> | <u>\$ 484,393</u> | <u>\$ 2,009,785</u> |

See the accompanying notes to these financial statements

ARTISTS REPERTORY THEATRE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

| | 2018 | 2017 |
|--|--------------|-------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 5,631,144 | \$ (12,217) |
| Adjustment to reconcile increase in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 177,995 | 182,815 |
| Loss (gain) on investments | - | 1,213 |
| Forgiveness of loan payable | (50,000) | (50,000) |
| Change in: | | |
| Contributions and grants receivable | 3,540 | (65,175) |
| Accounts receivable | (4,263) | 11,564 |
| Deferred charges | 16,014 | (48,252) |
| Other assets | (4,363) | (16,727) |
| Accounts payable | (390,551) | 51,616 |
| Accrued payroll and expenses | (360,532) | 289,510 |
| Deferred income | (18,506) | (45,211) |
| | 5,000,478 | 299,136 |
| Net cash provided by operating activities | | |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (156,475) | (32,047) |
| | (156,475) | (32,047) |
| Net cash used in investing activities | | |
| Cash flows from financing activities | | |
| Proceeds from line of credit | 80,000 | - |
| Payments on line of credit | (275,000) | (5,000) |
| Borrowings on notes payable | 1,076,258 | - |
| Repayment of notes payable | (4,279,192) | (91,050) |
| | (3,397,934) | (96,050) |
| Net cash used in financing activities | | |
| Net increase in cash and cash equivalents | 1,446,069 | 171,039 |
| Cash and cash equivalents, beginning of year | 242,436 | 71,397 |
| Cash and equivalents, end of year | \$ 1,688,505 | \$ 242,436 |

See the accompanying notes to these financial statements

ARTISTS REPERTORY THEATRE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

A. ORGANIZATION

Artists Repertory Theatre, Inc. (the “Theatre”) is a nonprofit organization, incorporated in the State of Oregon in 1982. The Theatre is a professional theater company dedicated to challenging artists and audiences with plays of depth and vibrancy in an intimate environment. The Theatre's support comes primarily from the sale of tickets for performances and from donor contributions.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Theatre maintains its books and prepares its financial statements on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared to focus on the Theatre as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of the Theatre's transactions into three classes of net assets – unrestricted, temporarily restricted and permanently restricted, as follows:

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Theatre and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Theatre.

Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (where the donor-stipulated purpose has been fulfilled) are reported as net assets released from restrictions. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor stipulation or law. As of June 30, 2018 and 2017, the Theatre has unrestricted and temporarily restricted net assets.

Program Services

Program services consist of the following:

Theatre productions

Perform theatre productions of adult and children plays to challenge audiences.

Educational outreach

Educational outreach provides outreach programs oriented towards the educational and creative opportunities for children and youth.

ARTISTS REPERTORY THEATRE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include accounts with financial institutions covered by the Federal Deposit Insurance Corporation (FDIC) of \$250,000. For purposes of the statement of cash flows, the Theatre considers all short-term investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2018 the Theatre had bank balances in excess of FDIC coverage for \$552,932. At June 30, 2017 the Theatre had no bank balances in excess of FDIC coverage.

Investments

The Foundation follows guidance in Accounting Standards Codification (ASC) 820 and 958. Investments are reflected on the statement of financial position at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the statement of activities. Interest income is reported as earned.

Accounts Receivable

Accounts receivable which are expected to be received within one year are reported at net realizable value. The allowance for uncollectible receivables is the Theatre's best estimate of the amount of probable losses in existing receivables. The Theatre determines the allowance based on historical write-off experience and current information. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Theatre determined that no allowance is necessary for the year ended June 30, 2018 and 2017.

Deferred Charges

Deferred charges represent costs incurred in advance related to productions that will be staged in the following year. These costs are recognized as expenses in the season when the productions are performed and consist of royalties, marketing costs, and cost of labor and materials for sets and costumes.

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair market value at the date of the donation. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in the statements of activities.

Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|-------------------------|------------|
| Works of art | 0 years |
| Land | 0 years |
| Building | 40 years |
| Building improvements | 20 years |
| Furniture and equipment | 5-10 years |

Deferred Income

Deferred income represents subscriptions received for the subsequent year's Theatre productions. Revenue is recognized as the related productions are performed.

ARTISTS REPERTORY THEATRE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Production income is derived from ticket sales which are recognized as the productions are performed. Ticket sales collected for the next fiscal year's productions and sponsorship revenues relating to a specific production are deferred and recognized as income in the period in which the related productions are performed.

The Theatre has entered into an agreement with a third party authorizing the use of a portion of the Theatre's land to provide parking services to the public. Parking rental income is based upon a percentage of monthly gross parking revenue and is recognized as earned.

Contributions, Grants and Promises to Give

Contributions and grants are recognized in the period pledged as unrestricted contributions and grants if specified for the current period and there are no donor-imposed restrictions. Contributions and grants specified for future periods or with donor-imposed restrictions are recognized in the period pledged as temporarily restricted contributions. When a restriction expires (either when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If a donor-imposed restriction has been met in the same reporting period in which the contribution was received, the contribution is reported as unrestricted support.

Unconditional promises to give are recognized as revenues and contributions and grants receivable in the period the promise is made. Promises to give without donor-imposed restrictions are recorded as unrestricted if specified for the current period. Promises to give with donor-imposed restrictions or specified for future periods are recorded as temporarily restricted. Conditional promises to give are only recognized when the conditions upon which they depend are substantially met and the promises become unconditional.

In-Kind Contributions and Expenses

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated equipment, materials, and other assets were \$34,832 and \$16,915 for the years ended June 30, 2018 and 2017, respectively.

The Theatre recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services are recorded as unrestricted support at their estimated fair value at the date of service. Donated services were \$9,532 and \$17,086 for the years ended June 30, 2018 and 2017, respectively, and consisted of professional services and travel services.

ARTISTS REPERTORY THEATRE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Theatre is organized as a nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. In any year in which the Theatre has unrelated business income of \$1,000 or more, before related expenses, the Theatre must file Form 990-T with the Internal Revenue Service and may have to pay tax on such income. The Theatre is not a private foundation.

The Theatre follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions. It requires an entity to recognize the financial statement impact of tax position when it is more likely than not that the position would not be sustained if examined by a taxing authority. Management has determined that the Theatre has no uncertain tax positions as of June 30, 2018 and 2017. The Theatre's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal and state income tax returns have a three year statute of limitations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Expense Allocations

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

Advertising Costs

Marketing and advertising costs, except for costs associated with promotion of future productions, are recognized as expense when incurred.

Concentrations of Credit Risk

The Theatre maintains its cash in bank accounts that, at times, may exceed federally insured limits. The Theatre has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Fair Value Instruments

The carrying value of the Theatre's cash and cash equivalents, accounts receivable, contributions and grants receivable, accounts payable, and accrued expenses approximate market value as of June 30, 2018 and 2017 due to the short-term nature of the instruments.

ARTISTS REPERTORY THEATRE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include accounts with financial institutions as of June 30,:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|---------------------|-------------------|
| Checking accounts | \$ 64,696 | \$ 21,866 |
| Money market accounts | 1,623,109 | 217,322 |
| Petty cash | <u>700</u> | <u>3,248</u> |
| Total cash and cash equivalents | <u>\$ 1,688,505</u> | <u>\$ 242,436</u> |

D. INVESTMENTS

ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent resources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level I: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level II: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level III: Unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The Theatre receives stock contributions which are immediately sold and distributed, net of expenses.

The following table summarizes the change in investments for the years ended June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|----------------------------|--------------------|------------------|
| Balance, beginning of year | \$ - | \$ 1,213 |
| Stock contribution | 7,108,436 | 577,292 |
| Change in value | 12,496 | (894) |
| Fees | (19,287) | (7,750) |
| Distribution | <u>(7,101,645)</u> | <u>(569,536)</u> |
| Balance, end of year | <u>\$ -</u> | <u>\$ -</u> |

ARTISTS REPERTORY THEATRE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

E. NOTES RECEIVABLE

The Theatre has a note receivable with another organization that requires monthly payments of \$1,875 with no interest and matures on December 31, 2019. Future payments to be received under this note receivable are as follows:

| Year Ended June 30, | |
|---------------------|------------------|
| 2019 | \$ 22,500 |
| 2020 | <u>11,250</u> |
| | <u>\$ 33,750</u> |

F. PROPERTY AND EQUIPMENT

Property and equipment at June 30th consist of the following:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|---------------------|---------------------|
| Land | \$ 2,537,000 | \$ 2,537,000 |
| Building and improvements | 5,519,516 | 5,373,072 |
| Furniture and equipment | 1,061,215 | 1,051,185 |
| Works of art | <u>6,750</u> | <u>6,750</u> |
| | 9,124,481 | 8,968,007 |
| Less accumulated depreciation | <u>(2,943,963)</u> | <u>(2,765,969)</u> |
| | <u>\$ 6,180,518</u> | <u>\$ 6,202,038</u> |

Depreciation expense was \$177,995 and \$182,815 for the years ended June 30, 2018 and 2017, respectively.

G. LINE OF CREDIT

The Theatre has a \$200,000 line of credit available with U.S. Bank that is secured by the Theatre's assets. Interest is payable monthly at prime plus 1.00% (5.00% as of June 30, 2018). Outstanding borrowings on the line of credit were \$0 and \$195,000 as of June 30, 2018 and 2017, respectively.

H. NOTES PAYABLE

The Theatre has notes payable as follows at June 30,

| | <u>2018</u> | <u>2017</u> |
|---|-------------|--------------|
| Note payable to the Scottish Rite requiring monthly payments including interest at 5.50%, collateralized by land, building, and building improvements, due March, 2034. | \$ - | \$ 2,848,635 |

ARTISTS REPERTORY THEATRE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

H. NOTES PAYABLE (Continued)

| | | |
|--|-------------|---------------------|
| Term note payable to a board member, due May 1, 2017, including interest at 10%. | - | 304,299 |
| | | |
| Note payable to a board member, due December, 2018. No interest charged to the organization. | - | 100,000 |
| | | |
| | - | 3,252,934 |
| | | |
| Less current portion | - | (457,845) |
| | | |
| Notes payable, net of current portion | <u>\$ -</u> | <u>\$ 2,795,089</u> |

During the year ended June 30, 2018 the Theatre took out a loan in the amount of \$3,900,000. Proceeds from this loan were used to pay off existing debt and liabilities. The loan accrued interest at 13.0% with a maturity date of February 28, 2019. This loan was paid off during the year ended June 30, 2018.

I. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of the following at June 30,:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Contributions and grants subject to use restrictions | <u>\$ 363,906</u> | <u>\$ 484,393</u> |
| | | |
| | <u>\$ 363,906</u> | <u>\$ 484,393</u> |

J. INCOME TAXES

Income related to the commercial parking has been determined to be unrelated business income. Related to this activity, the Theatre has net operating loss carryforwards totaling approximately \$55,200 and \$53,600 as of June 30, 2018 and 2017, respectively, which expire through 2034 and 2033, respectively. A deferred tax asset of approximately \$18,000 and \$17,800 as of June 30, 2018 and 2017, respectively, relating to this loss carryforward has been completely offset by a valuation allowance of the same amount and is therefore not presented in the accompanying financial statements.

The Theatre adopted the provisions of ASC 740 on September 1, 2009. As part of the ASC 740 implementation, the Theatre adopted a policy to record accrued interest and penalties associated with uncertain tax positions in income tax expense in the statements of activities. On initial adoption of ASC 740 and through June 30, 2018, the Theatre recognized no uncertain tax positions nor accrued interest and penalties associated with uncertain tax positions.

ARTISTS REPERTORY THEATRE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

K. SUPPLEMENTAL CASH FLOW INFORMATION

Schedule of non-cash investing and financing transactions for the years ended June 30, 2018 and 2017:

| | 2018 | 2017 |
|--|---------------------|-------------------|
| Forgiveness of note payable | \$ <u>50,000</u> | \$ <u>50,000</u> |
| Proceeds from note payable used to pay existing debt | \$ <u>3,123,742</u> | \$ <u>-</u> |
| Cash paid during the year for interest | \$ <u>262,537</u> | \$ <u>231,846</u> |

L. LEASES

The Theatre leases office equipment under operating lease agreements that will expire in July 2021. Rental expense paid in connection with these operating leases was \$19,486 and \$17,887 for the years ended June 30, 2018 and 2017, respectively.

Future minimum payments under the leases are as follows for the years ending June 30:

| | |
|------|------------------|
| 2019 | \$ 17,940 |
| 2020 | 15,110 |
| 2021 | 8,695 |
| 2022 | 5,945 |
| 2023 | <u>5,335</u> |
| | <u>\$ 53,025</u> |

M. SUBSEQUENT EVENTS

The Theatre has evaluated for subsequent events through September 20, 2018, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2018.

Subsequent to year end, management has entered into a Purchase and Sale Agreement (PSA) with a third-party developer for the partial sale of its property. As of the date of this report, the PSA is in the due diligence phase, with an expected closing date of May 1, 2019.

SUPPLEMENTARY INFORMATION

ARTISTS REPERTORY THEATRE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

| | <u>Production</u> | <u>Marketing</u> | <u>Fundraising</u> | <u>Management and General</u> | <u>Total</u> |
|-------------------------------|---------------------|-------------------|--------------------|-----------------------------------|---------------------|
| Salaries, taxes, and benefits | \$ 1,460,165 | \$ 182,364 | \$ 122,083 | \$ 246,776 | \$ 2,011,388 |
| Contracted services | 250,417 | 35,698 | 21,365 | 142,547 | 450,027 |
| Fees and dues | 34,177 | 900 | 9,066 | 61,237 | 105,380 |
| Materials and supplies | 188,364 | 5,754 | 22,640 | 2,186 | 218,944 |
| Occupancy | 61,212 | 8,261 | 6,272 | 10,820 | 86,565 |
| Royalties | 61,770 | - | - | - | 61,770 |
| Office | - | - | - | 24,713 | 24,713 |
| Technology | 480 | 7,942 | 33,239 | 1,589 | 43,250 |
| Telecommunications | 7,833 | 1,057 | 803 | 1,384 | 11,077 |
| Advertising | - | 229,438 | - | - | 229,438 |
| Travel | 37,278 | 269 | 4,364 | 2,899 | 44,810 |
| Special events | - | - | 119,674 | - | 119,674 |
| Interest and loan fees | 14,370 | 1,939 | 1,472 | 534,643 | 552,424 |
| Insurance | 10,707 | 1,445 | 1,097 | 1,892 | 15,141 |
| Depreciation | 125,864 | 16,986 | 12,897 | 22,248 | 177,995 |
| | | | | | |
| Total Expense | <u>\$ 2,252,637</u> | <u>\$ 492,053</u> | <u>\$ 354,972</u> | <u>\$ 1,052,934</u> | <u>\$ 4,152,596</u> |

ARTISTS REPERTORY THEATRE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

| | Production | Marketing | Fundraising | Management and General | Total |
|-------------------------------|---------------------|-------------------|-------------------|---------------------------|---------------------|
| Salaries, taxes, and benefits | \$ 1,263,923 | \$ 218,691 | \$ 128,526 | \$ 330,287 | \$ 1,941,427 |
| Contracted services | 192,560 | 37,130 | 10,994 | 93,952 | 334,636 |
| Fees and dues | 52,289 | 2,610 | 20,019 | 22,968 | 97,886 |
| Materials and supplies | 179,058 | 4,037 | 12,960 | 2,583 | 198,638 |
| Occupancy | 60,541 | 7,228 | 6,401 | 13,835 | 88,005 |
| Royalties | 67,773 | - | - | - | 67,773 |
| Office | - | - | - | 29,813 | 29,813 |
| Technology | 610 | 14,564 | 25,868 | 3,872 | 44,914 |
| Telecommunications | 7,647 | 995 | 881 | 1,905 | 11,428 |
| Advertising | - | 145,901 | - | - | 145,901 |
| Travel | 34,362 | - | 785 | 4,513 | 39,660 |
| Special events | - | - | 73,580 | - | 73,580 |
| Interest | 133,936 | 17,429 | 15,436 | 64,251 | 231,052 |
| Insurance | 9,860 | 1,283 | 1,136 | 2,456 | 14,735 |
| Depreciation | 122,328 | 15,919 | 14,098 | 30,470 | 182,815 |
| Total Expense | \$ 2,124,887 | \$ 465,787 | \$ 310,684 | \$ 600,905 | \$ 3,502,263 |