

# **Artists Repertory Theatre**

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Financial Statements

June 30, 2020 and 2019

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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, 2020 and 2019, 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 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.

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## 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, 2020 and 2019, 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.

*Richard Winkel, CPA*

March 1, 2021

ARTISTS REPERTORY THEATRE  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 720,066	\$ 586,530
Investments	5,143,201	38,486
Certificates of deposit	30,035	30,000
Contributions and grants receivable, current	448,383	88,600
Accounts receivable	775	2,805
Notes receivable, current	4,750	12,750
Deferred charges	188,287	115,970
Prepaid expense and other current assets	67,419	85,958
Total current assets	6,602,916	961,099
Non-current assets		
Notes receivable, non-current	-	6,000
Contributions receivable, non-current, net of discount	590,121	-
Property and equipment, net	7,170,291	7,391,484
Total assets	\$ 14,363,328	\$ 8,358,583
<b>LIABILITIES</b>		
Current liabilities		
Note payable, current portion	\$ 133,392	\$ 200,000
Accounts payable	263,125	175,171
Accrued payroll and expenses	41,379	11,824
Escrow deposit	-	525,000
Deferred income	135,975	221,463
Total current liabilities	573,871	1,133,458
Non-current liabilities		
Note payable	209,608	-
Total liabilities	783,479	1,133,458
<b>NET ASSETS</b>		
Net assets without restrictions	12,363,482	6,893,144
Net assets with restrictions	1,216,367	331,981
Total net assets	13,579,849	7,225,125
Total liabilities and net assets	\$ 14,363,328	\$ 8,358,583

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, 2020

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Totals</u>
Operating revenues and other support			
Production income	\$ 553,888	\$ -	\$ 553,888
Contributions and grants	799,140	2,695,364	3,494,504
In-kind contributions	50,388	-	50,388
Special event revenue	166,730	-	166,730
Rental income	59,949	-	59,949
Investment income	77,739	486	78,225
Gain on sale of fixed assets	5,323,862	-	5,323,862
Other income	126,060	-	126,060
Net assets released from restrictions	<u>1,811,464</u>	<u>(1,811,464)</u>	<u>-</u>
 Total support and revenue	 <u>8,969,220</u>	 <u>884,386</u>	 <u>9,853,606</u>
Operating expenses			
Program expenses			
Production	2,195,960	-	2,195,960
Marketing	<u>392,137</u>	<u>-</u>	<u>392,137</u>
 Total program expenses	 2,588,097	 -	 2,588,097
 Fundraising	 299,476	 -	 299,476
Management and general	<u>611,309</u>	<u>-</u>	<u>611,309</u>
 Total operating expenses	 <u>3,498,882</u>	 <u>-</u>	 <u>3,498,882</u>
 Change in net assets	 5,470,338	 884,386	 6,354,724
 Net assets, beginning of year	 <u>6,893,144</u>	 <u>331,981</u>	 <u>7,225,125</u>
 Net assets, end of year	 <u>\$ 12,363,482</u>	 <u>\$ 1,216,367</u>	 <u>\$ 13,579,849</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, 2019

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Totals</u>
Operating revenues and other support			
Production income	\$ 810,169	\$ -	\$ 810,169
Contributions and grants	1,813,654	80,878	1,894,532
In-kind contributions	98,747	-	98,747
Special event revenue	373,386	-	373,386
Rental income	185,593	-	185,593
Other income	132,329	-	132,329
Net assets released from restrictions	<u>113,223</u>	<u>(113,233)</u>	<u>-</u>
 Total support and revenue	 <u>3,527,101</u>	 <u>(32,345)</u>	 <u>3,494,756</u>
Operating expenses			
Program expenses			
Production	2,355,120	-	2,355,120
Marketing	<u>568,182</u>	<u>-</u>	<u>568,182</u>
 Total program expenses	 2,923,302	 -	 2,923,302
 Fundraising	 396,638	 -	 396,638
Management and general	<u>590,620</u>	<u>-</u>	<u>590,620</u>
 Total operating expenses	 <u>3,910,560</u>	 <u>-</u>	 <u>3,910,560</u>
 Change in net assets	 (383,459)	 (32,345)	 (415,804)
 Net assets, beginning of year	 <u>7,276,603</u>	 <u>364,326</u>	 <u>7,640,929</u>
 Net assets, end of year	 <u>\$ 6,893,144</u>	 <u>\$ 331,981</u>	 <u>\$ 7,225,125</u>

See the accompanying notes to these financial statements

ARTISTS REPERTORY THEATRE  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2020

	<u>Production</u>	<u>Marketing</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Salaries, taxes, and benefits	\$ 1,393,048	\$ 180,556	\$ 96,882	\$ 376,630	\$ 2,047,116
Contracted services	22,133	7,152	-	45,333	74,618
Fees and dues	31,216	7,458	49,076	38,414	126,164
Materials and supplies	297,686	25,529	6,378	1,215	330,808
Occupancy	318,375	-	61,650	610	380,635
Royalties	44,771	-	-	-	44,771
Office	10,432	1,722	6,652	31,096	49,902
Technology	2,254	651	68	90,423	93,396
Advertising	-	160,506	-	-	160,506
Travel	16,029	798	433	5,805	23,065
Special events	-	-	74,171	-	74,171
Interest	114	-	-	107	221
Insurance	15,280	1,981	1,063	4,131	22,455
Depreciation	44,622	5,784	3,103	12,064	65,573
Bad debt	-	-	-	5,481	5,481
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses	<u>\$ 2,195,960</u>	<u>\$ 392,137</u>	<u>\$ 299,476</u>	<u>\$ 611,309</u>	<u>\$ 3,498,882</u>

See the accompanying notes to these financial statements



ARTISTS REPERTORY THEATRE  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2019

	<u>Production</u>	<u>Marketing</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Salaries, taxes, and benefits	\$ 1,473,481	\$ 186,380	\$ 121,911	\$ 334,186	\$ 2,115,958
Contracted services	266,067	29,294	18,219	129,059	442,639
Fees and dues	29,573	3,718	1,928	19,877	55,096
Materials and supplies	183,356	11,523	7,605	12,072	214,556
Occupancy	94,783	9,372	6,130	16,805	127,090
Royalties	72,184	-	-	-	72,184
Office	10,913	1,060	682	13,422	26,077
Technology	40,056	17,826	3,125	18,933	79,940
Advertising	-	290,266	-	-	290,266
Travel	40,844	546	4,174	8,673	54,237
Special events	-	-	220,961	-	220,961
Interest	-	-	-	4,965	4,965
Insurance	15,881	2,009	1,314	3,602	22,806
Depreciation	127,982	16,188	10,589	29,026	183,785
Total expenses	<u>\$ 2,355,120</u>	<u>\$ 568,182</u>	<u>\$ 396,638</u>	<u>\$ 590,620</u>	<u>\$ 3,910,560</u>

See the accompanying notes to these financial statements

ARTISTS REPERTORY THEATRE  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 6,354,724	\$ (415,804)
Adjustment to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation	65,573	183,786
Change in discount on long-term contributions receivable	9,897	-
Donation of investments	(1,137,206)	-
Investment income	(78,225)	-
Gain on sale of capital assets	(5,323,862)	-
Forgiveness of note payable	(200,000)	-
Change in:		
Contributions and grants receivable, net	(953,783)	2,112
Accounts receivable, net	2,030	13,763
Deferred charges	(72,317)	(20,790)
Other assets	18,539	(16,819)
Accounts payable	87,954	49,826
Accrued payroll and expenses	29,555	(7,005)
Deferred income	(610,488)	357,194
	(1,807,627)	146,263
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Payments on note receivable	8,000	15,000
Purchase of certificates of deposit	-	(30,000)
Purchase of investments	(7,266,744)	-
Proceeds from sale of investments	3,377,425	-
Proceeds from sale of capital assets	8,847,168	-
Purchase of property and equipment	(3,367,686)	(1,394,752)
	1,598,163	(1,409,752)
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Borrowings on notes payable	343,000	200,000
	343,000	200,000
Net cash provided by financing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	586,530	(1,063,489)
Cash and cash equivalents, beginning of year	625,016	1,650,019
Cash and equivalents, end of year	\$ 720,066	\$ 586,530

See the accompanying notes to these financial statements

ARTISTS REPERTORY THEATRE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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1. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Theatre have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Theatre to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Theatre's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Theatre or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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.

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.

ARTISTS REPERTORY THEATRE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Theatre to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Theatre maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Theatre cash and cash equivalent accounts have been placed with high credit quality financial institutions. The Theatre has not experienced, nor does it anticipate, any losses with respect to such accounts.

Investments

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, Contributions and Grants Receivable

Accounts, contributions and grants receivable which are expected to be received within one year are reported at net realizable value. Contributions and grants receivable that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions and grants revenue.

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, 2020 and 2019.

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

ARTISTS REPERTORY THEATRE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Income

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

Revenue Recognition

Production income is derived from ticket sales which are recognized when the performance has been completed. 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.

Grants and Contributions

Grants and contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a 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 statements of activities as net assets released from restrictions.

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 \$40,388 and \$67,298 for the years ended June 30, 2020 and 2019, 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 \$10,000 and \$31,449 for the years ended June 30, 2020 and 2019, respectively, and consisted of professional services and travel services.

ARTISTS REPERTORY THEATRE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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2. 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, 2020 and 2019. 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, 2020 and 2019 due to the short-term nature of the instruments.

ARTISTS REPERTORY THEATRE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional expense basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that were allocated include the following:

Salaries and benefits	Time and effort
Occupancy	Square footage
Professional services	Time and effort
Office expenses	Time and effort
Insurance	Time and effort

3. CASH AND CASH EQUIVALENTS

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

	<u>2020</u>	<u>2019</u>
Checking accounts	\$ 649,353	\$ 585,321
Money market	69,463	209
Petty cash	<u>1,250</u>	<u>1,000</u>
Total cash and cash equivalents	<u>\$ 720,066</u>	<u>\$ 586,530</u>

4. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at June 30, 20,:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 720,066	\$ 586,530
Investments	5,143,201	38,486
Certificate of deposit	30,035	30,000
Accounts and notes receivable, current	5,525	15,555
Grants receivable, current	<u>448,383</u>	<u>88,600</u>
	<u>6,347,210</u>	<u>759,171</u>
Less amounts not available to be used within one year:		
Net assets with restrictions	<u>(1,216,367)</u>	<u>(331,981)</u>
Total financial assets available	<u>\$ 5,130,843</u>	<u>\$ 397,190</u>

ARTISTS REPERTORY THEATRE  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2020 and 2019

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4. AVAILABILITY AND LIQUIDITY (Continued)

The Theatre manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. The Theatre's cash needs are expected to be met on a monthly basis from regular revenue sources. In general, the Theatre maintains sufficient financial assets on hand to meet normal operating expenditures and to reserve for future needs.

5. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable are summarized as follows June 30,:

	2020	2019
Less than 1 year	\$ 448,383	\$ 88,600
One year to 5 years	600,000	-
	1,048,383	88,600
Less discount	(9,879)	-
	\$ 1,038,504	\$ 88,600

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1.18%.

6. INVESTMENTS

Accounting Standards Codification (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.



ARTISTS REPERTORY THEATRE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

6. INVESTMENTS (Continued)

The Theatre has the following investments as of June 30, 2020 and 2019:

	2020	2019
Governmental money market	\$ 5,143,201	\$ 38,486
	\$ 5,143,201	\$ 38,486

The investments qualify as Level I investments.

The following table summarizes the change in investments for the years ended June 30, 2020 and 2019:

	2020	2019
Balance, beginning of year	\$ 38,486	\$ 1,207,414
Stock contribution	7,266,744	18,327
Deposits	1,137,206	-
Change in value	37,881	9,107
Dividends and interest	64,104	-
Fees	(23,795)	-
Net investment income	78,190	9,107
Distribution	(3,377,425)	(1,196,362)
Balance, end of year	\$ 5,143,201	\$ 38,486

7. CERTIFICATE OF DEPOSIT

The Theatre has a certificate of deposit at cost which matures April 25, 2021 and yields an annual interest rate of 0.10%. The balance of the certificate of deposit was \$30,035 and \$30,000 at June 30, 2020 and 2019, respectively.

8. NOTES RECEIVABLE

The Theatre has a note receivable with another organization that requires monthly payments of \$1,000 with no interest and matures on December 31, 2020. The balance due at June 30, 2020 is \$4,750.

ARTISTS REPERTORY THEATRE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

9. PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	2020	2019
Land	\$ 1,265,500	\$ 2,537,000
Building and improvements	1,659,402	6,907,146
Furniture and equipment	583,697	1,068,337
Works of art	6,750	6,750
Construction in process	4,856,301	-
	8,371,650	10,519,233
Less accumulated depreciation	(1,201,359)	(3,127,749)
	\$ 7,170,291	\$ 7,391,484

Depreciation expense was \$65,573 and \$183,785 for the years ended June 30, 2020 and 2019, respectively.

10. NOTES PAYABLE

The Theatre had a note payable to a former board member of \$200,000, due upon final closing of the Organization's half block building sale. This note payable was forgiven during the year ended June 30, 2020

In April 2020, the Theatre was granted a loan from Commerce Bank in the aggregate amount of \$343,000, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The proceeds of the PPP Loans have been and are expected to be used for payroll costs but may also be used for other permitted purposes under the CARES Act, including rent or utility costs. Under the terms of the CARES Act, each borrower can apply for forgiveness for all or a portion of the PPP Loan and, as described below, the Theatre intends to apply for forgiveness. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds in accordance with the terms of the CARES Act during the 24-week period after loan origination and the maintenance or achievement of certain employee levels. While the Theatre believes that the proceeds of the PPP Loans have been or will be used only for qualifying expenses in accordance with the terms of the CARES Act, any forgiveness of a PPP Loan will be subject to approval by Commerce Bank and the U.S. Small Business Administration, which is administering the PPP under the CARES Act, and there can be no assurance that any or all of the PPP Loans will be forgiven in whole or in part. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

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10. NOTES PAYABLE (Continued)

Future obligations on the note payable are as follows:

June 30, 2021	\$ 133,392
June 30, 2022	<u>209,608</u>
	<u><u>\$ 343,000</u></u>

11. 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% (4.25% as of June 30, 2020). There were no outstanding balances due on the line of credit as of June 30, 2020 and 2019, respectively.

12. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions consist of the following at June 30,:

	<u>2020</u>	<u>2019</u>
Contributions and grants subject to use restrictions	<u>\$ 1,216,367</u>	<u>\$ 331,381</u>
	<u><u>\$ 1,216,367</u></u>	<u><u>\$ 331,381</u></u>

The Theatre released net assets from donor restrictions due to satisfaction of purpose restriction of \$1,811,464 and \$113,223 during the years ended June 30, 2020 and 2019, respectively.

13. LEASES

The Theatre leases office space under an operating lease agreement that expires May 31, 2022 with required payments of \$8,121 a month. The Theatre also leases office equipment under operating lease agreements that will expire by June 2023. Rental expense paid in connection with the operating leases was \$110,602 and \$54,376 for the years ended June 30, 2020 and 2019, respectively.

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

2021	\$ 110,602
2022	102,481
2023	<u>12,606</u>
	<u><u>\$ 225,689</u></u>

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14. SUPPLEMENTAL CASH FLOW INFORMATION

Schedule of non-cash investing and financing transactions for the years ended June 30, 2020 and 2019:

	2020	2019
Forgiveness of note payable	\$ 200,000	\$ -
Cash paid during the year for interest	\$ 221	\$ 4,965

15. 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 \$44,800 and \$59,400 as of June 30, 2020 and 2019, respectively, which expire through 2035 and 2034, respectively. A deferred tax asset of approximately \$15,000 and \$19,800 as of June 30, 2020 and 2019, 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.

In accordance with ASC 740, *Income Taxes*, 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. Through June 30, 2020, the Theatre recognized no uncertain tax positions nor accrued interest and penalties associated with uncertain tax positions.

16. SUBSEQUENT EVENTS

The Theatre has evaluated for subsequent events through March 1, 2021, 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, 2020.

Subsequent to year-end, the Theatre has continued to be negatively impacted by the effects of the world-wide coronavirus pandemic. The Theatre is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Theatre's financial position is not known.

Construction has continued on the Theatre's renovation project, an additional \$41,345 has been capitalized subsequent to year end.