Virginia Repertory Theatre

Consolidated Financial Statements

June 30, 2023 and 2022

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VIRGINIA REPERTORY THEATRE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Virginia Repertory Theatre
Richmond, Virginia

Opinion

We have audited the accompanying consolidated financial statements of Virginia Repertory Theatre and Empire Theater, LLC (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Keiter

December 15, 2023
Glen Allen, Virginia

VIRGINIA REPERTORY THEATRE

Consolidated Statements of Financial Position
June 30, 2023 and 2022

Assets	2023	2022
Current assets:		
Cash and cash equivalents	$ 905,203	$ 2,412,490
Pledges and grants receivable - current portion	1,063,890	294,930
Other receivables	30,604	244,340
Prepaid expenses and other	308,486	412,766
Total current assets	2,308,183	3,364,526
Property and equipment, net	6,356,250	2,967,244
Other assets:		
Investments	223,451	199,740
Pledges and grants receivable - less current portion, net	887,172	166,040
Right-of-use operating lease assets, net	281,085	-
Other	59,734	52,986
Total other assets	1,451,442	418,766
Total assets	$ 10,115,875	$ 6,750,536
Liabilities and Net Assets		
Current liabilities:		
Long-term debt - current portion	$ 84,443	$ 77,057
Accounts payable	209,051	126,357
Accrued expenses	271,384	326,315
Operating lease liabilities - current portion	90,562	-
Deferred revenue	686,190	445,244
Total current liabilities	1,341,630	974,973
Long-term debt - less current portion	1,938,370	1,144,879
Operating lease liabilities - less current portion	191,441	-
Total liabilities	3,471,441	2,119,852
Net assets:		
Without donor restrictions	4,540,289	3,785,395
With donor restrictions	2,104,145	845,289
Total net assets	6,644,434	4,630,684
Total liabilities and net assets	$ 10,115,875	$ 6,750,536

See accompanying notes to consolidated financial statements.

VIRGINIA REPERTORY THEATRE

Consolidated Statements of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Youth and ticket revenue	$ 2,005,021	$ -	$ 2,005,021
Contributions and grants	1,112,473	3,916,473	5,028,946
Other program and productions	429,951	-	429,951
Special event revenue	239,275	-	239,275
Investment gain, net	33,113	11,764	44,877
Rent	58,226	-	58,226
	3,878,059	3,928,237	7,806,296
Net assets released from restrictions	2,669,381	(2,669,381)	-
Total revenue and support	6,547,440	1,258,856	7,806,296
Expenses:			
Program	4,413,848	-	4,413,848
Management and general	937,165	-	937,165
Fundraising	441,533	-	441,533
Total expenses	5,792,546	-	5,792,546
Change in net assets	754,894	1,258,856	2,013,750
Net assets, beginning of year	3,785,395	845,289	4,630,684
Net assets, end of year	$ 4,540,289	$ 2,104,145	$ 6,644,434

See accompanying notes to consolidated financial statements.

VIRGINIA REPERTORY THEATRE

Consolidated Statements of Activities, Continued
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Youth and ticket revenue	$ 1,461,134	$ -	$ 1,461,134
Contributions and grants	1,093,872	513,431	1,607,303
Shuttered venue operator grant (Note 10)	2,385,006	-	2,385,006
Forgiveness of PPP Loan (see Note 10)	550,705	-	550,705
Other program and productions	250,885	-	250,885
Special event revenue	261,472	-	261,472
Investment loss, net	(10,278)	(12,500)	(22,778)
Rent	10,008	-	10,008
	6,002,804	500,931	6,503,735
Net assets released from restrictions	519,119	(519,119)	-
Total revenue and support	6,521,923	(18,188)	6,503,735
Expenses:			
Program	3,522,873	-	3,522,873
Management and general	894,743	-	894,743
Fundraising	274,477	-	274,477
Total expenses	4,692,093	-	4,692,093
Change in net assets	1,829,830	(18,188)	1,811,642
Net assets, beginning of year	1,955,565	863,477	2,819,042
Net assets, end of year	$ 3,785,395	$ 845,289	$ 4,630,684

See accompanying notes to consolidated financial statements.

VIRGINIA REPERTORY THEATRE

Consolidated Statements of Functional Expenses
Year Ended June 30, 2023

	Program	Management and General	Fundraising	Total
Actors, directors, and designers	$ 1,025,778	$ -	$ -	$ 1,025,778
Advertising, playbills, and printing	302,594	-	-	302,594
Bank and credit card merchant fees	46,491	-	5,222	51,713
Community Health and Wellness expenses	32,474	-	-	32,474
Depreciation	152,002	60,624	23,883	236,509
Dues and subscriptions	16,019	6,389	2,517	24,925
Education program expenses	18,900	-	-	18,900
Facilities and office rent	117,986	47,057	18,538	183,581
Gift shop and concessions	13,737	-	-	13,737
Insurance	46,778	18,657	7,350	72,785
Information technology and communications	76,194	30,389	11,972	118,555
Mortgage and loan interest	87,132	34,751	13,690	135,573
Office supplies	12,072	4,815	1,897	18,784
Personnel and related expenses	1,522,842	607,240	239,225	2,369,307
Postage and printing	7,483	2,984	1,176	11,643
Professional fees	140,160	55,901	22,022	218,083
Royalties, scripts, and scores	147,020	-	-	147,020
Sets, lights, sound, costumes, and other production	186,448	-	-	186,448
Special events expense	67,110	-	67,110	134,220
Taxes and licenses	15,693	6,259	2,466	24,418
Tour housing rent	52,155	-	-	52,155
Tour lodging and transportation	86,383	-	-	86,383
Tour vehicle expense	84,696	-	-	84,696
Travel and conferences	15,082	6,015	2,370	23,467
Utilities, repair, and maintenance	140,619	56,084	22,095	218,798
Total expenses	$ 4,413,848	$ 937,165	$ 441,533	$ 5,792,546

See accompanying notes to consolidated financial statements.

VIRGINIA REPERTORY THEATRE

Consolidated Statements of Functional Expenses, Continued
Year Ended June 30, 2022

	Program	Management and General	Fundraising	Total
Actors, directors, and designers	$ 859,635	$ -	$ -	$ 859,635
Advertising, playbills, and printing	396,048	-	-	396,048
Bank and credit card merchant fees	38,806	-	3,398	42,204
Community Health and Wellness expenses	4,500	-	-	4,500
Depreciation	81,002	41,517	10,727	133,246
Dues and subscriptions	7,370	3,777	976	12,123
Education program expenses	35,654	-	-	35,654
Facilities and office rent	142,886	73,236	18,922	235,045
Gift shop and concessions	7,600	-	-	7,600
Insurance	45,062	23,096	5,967	74,126
Information technology and communications	59,903	30,703	7,933	98,540
Mortgage and loan interest	29,032	14,880	3,845	47,756
Office supplies	6,341	3,078	840	10,259
Personnel and related expenses	1,229,691	630,278	162,846	2,022,815
Postage and printing	12,369	6,340	1,638	20,346
Professional fees	37,689	19,317	4,991	61,997
Royalties, scripts, and scores	105,950	-	-	105,950
Sets, lights, sound, costumes, and other production	162,227	-	-	162,227
Special events expense	39,858	-	39,858	79,716
Taxes and licenses	13,112	6,721	1,736	21,569
Tour housing rent	10,677	-	-	10,677
Tour lodging and transportation	38,439	-	-	38,439
Tour vehicle expense	77,471	-	-	77,471
Travel and conferences	11,156	5,718	1,477	18,351
Utilities, repair, and maintenance	70,396	36,081	9,322	115,800
Total expenses	$ 3,522,873	$ 894,743	$ 274,477	$ 4,692,093

See accompanying notes to consolidated financial statements.

VIRGINIA REPERTORY THEATRE

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 2,013,750	$ 1,811,642
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	236,509	133,246
Contributions restricted for long-term purposes	(2,096,235)	(220,000)
Net realized and unrealized (gain) loss on investments	(7,547)	28,984
Investment income reinvested	(16,164)	(3,789)
Forgiveness of PPP Loan (see Note 10)	-	(550,705)
Changes in operating assets and liabilities:		
Pledges and grants receivable	(1,490,092)	(38,676)
Other receivables	213,736	(125,155)
Prepaid expenses and other	104,280	(214,553)
Other assets	(6,748)	(13,487)
Accounts payable	82,694	6,671
Accrued expenses	(54,931)	86,434
Deferred revenue	240,946	(89,156)
Operating lease assets and liabilities, net	918	-
Net cash (used in) provided by operating activities	(778,884)	811,456
Cash flows used in investing activities:		
Purchases of property and equipment	(1,000,515)	(346,854)
Cash flows used in financing activities:		
Contributions restricted for long-term purposes	2,096,235	220,000
Payments on long-term debt	(1,824,123)	(57,980)
Net cash provided by financing activities	272,112	162,020
Net change in cash and cash equivalents	(1,507,287)	626,622
Cash and cash equivalents, beginning of year	2,412,490	1,785,868
Cash and cash equivalents, end of year	$ 905,203	$ 2,412,490
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 135,573	$ 47,756
Operating cash flows from operating leases	$ 165,677	$ -
Noncash investing and financing activity:		
Purchase of property and equipment with a note payable	$ 2,625,000	$ 34,252
Operating lease assets obtained through lease liabilities	$ 438,376	$ -

See accompanying notes to consolidated financial statements.

1. Description of Organization:

Virginia Repertory Theatre (“VA Rep”) is a non-profit professional theatre based in Richmond, Virginia. VA Rep presents national caliber productions of the great dramas, comedies, and musicals - past, present, and future. VA Rep is always seeking to demonstrate the unique power of theatre to engage, enthrall, educate, inspire, and is committed to artistic excellence and professionalism in the arts, education, children's health, and community leadership.

VA Rep is the managing member of Empire Theatre, LLC, a Virginia Limited Liability Company. Empire Theatre, LLC was formed to facilitate the receipt and disbursement of historic tax credits available from the capital improvements made to the historic November Theatre.

2. Summary of Significant Accounting Policies:

Principles of Consolidation: The consolidated financial statements include the accounts of the Virginia Repertory Theatre and Empire Theatre, LLC (collectively, the “Organization”). All significant inter-organization balances and transactions have been eliminated in the consolidation.

Basis of Accounting: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Net Assets: Under FASB guidance on financial statements of not-for-profit organizations, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions – Net assets currently available at the discretion of the Board of Directors for use in the Organization’s operations, including net assets undesignated and designated by the Board of Directors.

Net assets with donor restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions. Some net assets with donor restrictions include donor-imposed stipulations for specific operating purposes. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Some net assets with donor restrictions are restricted in perpetuity.

Cash and Cash Equivalents: The Organization considers all highly liquid securities that were purchased with original maturity of three months or less to be cash equivalents.

2. Summary of Significant Accounting Policies, Continued:

Pledges Receivable: Pledges receivable, or unconditional promises to give, represent amounts committed by donors to be paid within a specific period of time. Pledges receivable are recorded at the present value of their net realized value if considered material. As of June 30, 2023 and 2022, management believes that all pledge receivables will be received in accordance with the terms of the respective agreement and that no allowance for uncollectible pledge receivables was necessary.

Grants Receivable: Grants receivable represent amounts awarded by various government agencies and other non-profit organizations. Grants receivable are due within one year and are recorded at their net realizable value. Management estimates an allowance for uncollectible grants receivable based on economic conditions, historic trends, and current and past experience with the individual grantors. Management determined that no allowance was necessary at June 30, 2023 and 2022.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the consolidated statements of activities. Net investment return less external investment expenses are reported in the consolidated statements of activities and consists of interest and dividend income, and realized and unrealized capital gains and losses, for years ended June 30, 2023 and 2022.

Property and Equipment: Property and equipment is stated on the basis of cost. Property and equipment received as a contribution is recorded at fair value on the date of the contribution. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	25-39 years
Theatre improvement	7-39 years
Furniture, fixtures, and vehicles	5 years
Sets and props	3 years
Costumes, scripts, and soundtracks	4 years
Production equipment	4-5 years
Office equipment	3-7 years
Leasehold improvement	4 years

2. Summary of Significant Accounting Policies, Continued:

Leases: In February 2016, the FASB issues ASU 2016-02, *Leases (Topic 842)*, which supersedes ASC 840 and creates a new topic, ASC 842. ASC 842 requires lessees to recognize a right-of-use asset and lease liability on the consolidated statement of financial position for substantially all leases with a term of 12 months or greater. Leases are classified as either finance or operating, with classification affecting expense recognition in the Organization's operations.

The lease liabilities are initially measured at the present value of future lease payments, measured on a discounted basis, as of the lease commencement date or the adoption date, whichever is later. The right-of-use assets are initially measured at the value of the lease liability, adjusted for initial direct lease costs, lease incentives, and prepaid or deferred rent. The Organization elected to use the risk-free discount rate for any leases for which the rate implicit in the lease was not readily determinable. The right-of-use assets and lease liabilities are calculated to include options to extend or terminate the lease when the Organization determines it is reasonably certain it will exercise those options. In making those determinations, the Organization considers various existing economic and market factors, business strategies as well as the nature, length, and terms of the lease agreements.

At July 1, 2022, the Organization adopted the provisions of ASC 842, using the modified retrospective adoption method. In addition, the Organization utilized the simplified transition option available under ASC 842, which allows entities to continue to apply legacy guidance in ASC 840, including its disclosure requirements, in the comparative periods presented in the year of adoption.

Upon adoption of ASC 842, the Organization elected the transitional package of practical expedients that allow an entity to not reassess (1) whether any expired or existing contracts contain a lease, (2) the lease classification of any expired or existing lease, and (3) initial direct costs for any existing lease, and the use of hindsight in determining the lease term. In addition, the Organization elected to not record a lease liability and corresponding right-of-use asset for leases with terms of 12 months or less, and to account for lease and non-lease components as a single lease component.

The adoption of ASC 842 resulted in the recognition of operating right-of-use assets and liabilities of $308,843 as of July 1, 2022. The standard did not materially impact the Organization's consolidated statements of activities and cash flows.

2. Summary of Significant Accounting Policies, Continued:

Revenue Recognition: The Organization follows ASC Topic 958 which prescribes a specific framework for not-for-profit entities to determine whether revenue streams qualify as exchange-based or non-exchange-based transactions. For revenues streams that are determined to be exchange-based, the Organization follows ASC Topic 606, which prescribes a specific process for determining when exchange-based revenue should be recognized.

Contributions: All contributions are accounted for in accordance with ASC 958-605. Contributions are recognized at a point in time when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions are considered available for use without restrictions, unless specifically restricted by the donor. All donor-restricted contributions and time-restricted promises to give that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions and time-restricted promises to give are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Grants: Grants are recorded as support in the year notification is received from the grantor. Similar to contributions, grants received with restrictions are recognized within net assets without donor restrictions if the grant is used for the purpose restriction in the year that it is received. All other restricted grants are reported as increases in net assets with donor restrictions.

Youth and Ticket Revenue: The Organization recognizes revenue for performance fees and contract fees subject to the guidance of ASC 606, as such revenue is generated by satisfaction of performance obligations. Ticket prices are fixed based on each particular performance. Youth and ticket revenue is recognized at a point in time upon completion of a particular performance or over time for a series of performances.

Contract liabilities represent payments received in advance of performance under a contract, primarily advance payments under subscriptions and ticket sales attributable to the next performance season. Contract liabilities are recognized as revenue as (or when) the Organization performs under the contract. Deferred revenue totaled $686,190 at June 30, 2023, $445,244 at June 30, 2022 and $535,986 at June 30, 2021. There were no significant contract assets at June 30, 2023, 2022 or 2021.

2. Summary of Significant Accounting Policies, Continued:

Functional Allocation of Expenses: The Organization allocates its expenses on a functional basis among its various programs and supporting services in the consolidated statements of functional expenses. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated. Therefore, certain expenses (salaries and wages, occupancy, and office expenses) have been allocated to programs and supporting services benefited on a reasonable basis that is consistently applied. Costs related to personnel are allocated amongst functions based upon the percent of time each employee spends performing each function as defined by their position. All other costs are evaluated on a per invoice basis to determine what functions have been served.

Advertising Costs: The Organization expenses advertising costs as incurred. Advertising expenses were $263,760 for 2023 and $370,901 for 2022.

Income Taxes: The Internal Revenue Service (the “IRS”) has determined that the Virginia Repertory Theatre is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the “IRC” or “the Code”). Contributions to the Organization are tax deductible as defined by Section 170 of the Code. In addition, the IRS has determined that the Organization is not a “private foundation” within the meaning of Section 509(a) of the Code. For income tax purposes, Empire Theater, LLC is a disregarded entity and its financial activity is included in the tax filings of Virginia Repertory Theatre.

Income Tax Uncertainties: The Organization follows FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization’s tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year.

Management evaluated the Organization’s tax position and concluded that the Organization had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. The Organization is not currently under audit by any tax jurisdiction.

2. Summary of Significant Accounting Policies, Continued:

Donated Goods and Services: From time to time, the Organization receives donated services that are eligible for recognition under GAAP. The Organization recognizes the value of donated goods and services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would typically need to be purchased if they had not been donated. During 2023 and 2022, the value of donated goods and services meeting this recognition criteria was insignificant to the consolidated financial statements.

The Organization receives a significant amount of volunteer help in performing a wide variety of necessary tasks involved in the production of a theatrical performance. Although these are vital to the continued success of the Organization, due to the nature and extent of these contributions, it is impractical to value these services for consolidated financial statement purposes.

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash balances on deposit with major financial institutions which may, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization's investments are held in a portfolio that contains mutual funds. Such investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Pledges and grants receivable are from individuals, corporations, foundations, and government agencies. The Organization believes its credit risk related to these receivables is limited due to the nature of its donors/grantors. As of June 30, 2023, two donors/grantors accounted for approximately 57% of pledges and grants receivable, and two donors/grants accounted for 35% of contributions and grants for 2023. As of June 30, 2022, two donors/grantors accounted for approximately 69% of pledges and grants receivable, and there were no single pledges or grants that accounted for greater than 10% of revenue and support.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

2. Summary of Significant Accounting Policies, Continued:

Reclassificaitons: Certain prior year balances have been reclassified to conform with the current year presentation.

Subsequent Events: Management has evaluated subsequent events through December 15, 2023, the date the financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying consolidated financial statements.

3. Pledges and Grants Receivable:

Pledges and grants receivable consisted of the following at June 30, 2023:

	Pledges Receivable	Grants Receivable
Within one year	$ 850,180	$ 213,710
In one to five years	926,713	-
In more than five years	265,000	-
Gross pledges and grants receivable	2,041,893	213,710
Less discount to present value, discount rate of 5.08%	(304,541)	-
	$ 1,737,352	$ 213,710

Pledges and grants receivable consisted of the following at June 30, 2022:

	Pledges Receivable	Grants Receivable
Within one year	$ 75,217	$ 219,713
In one to five years	40,000	-
In more than five years	275,000	-
Gross pledges and grants receivable	390,217	219,713
Less discount to present value, discount rate of 4.22%	(148,960)	-
	$ 241,257	$ 219,713

4. Property and Equipment:

Property and equipment consisted of the following at June 30:

	2023	2022
Land	$ 414,803	$ 414,803
Buildings	6,334,676	2,656,201
Theater improvements	1,905,492	1,977,625
Furniture and fixtures	147,652	147,652
Sets and props	277,505	277,505
Costumes	417,256	417,256
Production equipment	654,457	639,250
Scripts and soundtracks	40,789	40,789
Office equipment	385,999	382,035
Leasehold improvements	692,451	696,851
Vehicles	227,930	227,930
	11,499,010	7,877,897
Accumulated depreciation	(5,142,760)	(4,910,653)
	$ 6,356,250	$ 2,967,244

5. Investments and Fair Value Measurements:

Investments consisted of the following at June 30, 2023:

	Cost	Market	Unrealized Gain
Mutual funds	$ 178,123	$ 223,451	$ 45,328

Investments consisted of the following at June 30, 2022:

	Cost	Market	Unrealized Gain
Mutual funds	$ 167,872	$ 199,740	$ 31,868

5. Investments and Fair Value Measurements, Continued:

The FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The levels of the hierarchy are defined as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology are quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.

Level 3 Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement.

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 market value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. All of the Organization's investments in mutual funds are Level 1 investments. The mutual funds are valued at the closing price reported on the active market on which the individual funds are traded.

6. Long-Term Debt:

Long-term debt consisted of the following at June 30:

	2023	2022
Note payable to bank, original principal of $2,625,000, 6.29% interest rate, collateralized by a building, monthly payments of interest only are due through October 2024. Beginning in November 2024, monthly payments of principal and interest totaling $7,386 are due, with the loan maturing October, 2029.	$ 852,218	$ -
Note payable to bank, original principal of $710,000, 4.35% interest rate, collateralized by land, building and improvements, monthly payments of $5,400 principal and interest, with a balloon payment due October, 2029.	595,565	630,919
Note payable to bank, original principal of $516,000, 4.5% interest rate, collateralized by real estate, monthly payments of $3,283 principal and interest, with a balloon payment due December, 2025.	396,936	406,765
Note payable to Small Business Administration (Economic Injury Disaster Loan), original principal of $150,000, 1.0% interest rate, collateralized by the personal property of the Organization, monthly payments of $641 principal and interest, maturing May, 2050.	150,000	150,000
Note payable to bank, original principal of $34,252, 4.75% interest rate, collateralized by a vehicle, monthly payments of $644 principal and interest, maturing May, 2027.	28,094	34,252
	2,022,813	1,221,936
Current portion	84,443	77,057
Long-term portion	$ 1,938,370	$ 1,144,879

6. Long-Term Debt, Continued:

Aggregate maturities required on long-term debt principal for the next five years are as follows:

Year Ending June 30	Amount
2024	$ 84,443
2025	99,535
2026	442,202
2027	96,607
2028	93,805
Thereafter	1,206,221
	$ 2,022,813

7. Net Assets:

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

	2023	2022
Endowment fund	$ 110,863	$ 99,099
Funding-purpose restriction	1,797,151	365,220
Funding-time restriction	196,131	380,970
	$ 2,104,145	$ 845,289

Net assets were released from restriction for the following purposes for the year ended June 30:

	2023	2022
Funding-purpose restriction	$ 2,453,235	$ 349,755
Funding-time restriction	216,146	169,364
	$ 2,669,381	$ 519,119

The majority of funding of purpose restrictions relates to education and tour program activities and capital expenditures.

7. Net Assets, Continued:

Net assets without donor restrictions consisted of the following at June 30:

	2023	2022
Undesignated	$ 4,444,977	$ 3,700,198
Board-designated - Hugs and Kisses Endowment	52,787	47,185
Board-designated - Board discretion	42,525	38,012
	$ 4,540,289	$ 3,785,395

8. Lease Commitments:

The Organization leases tour housing, shop and storage, administrative offices, and parking spaces under operating leases. The leases require aggregate lease payments of $14,443 per month and expire at various dates through September 2029. Future payments required under noncancellable operating leases are as follows:

Year Ending June 30:	Amount
2024	$ 90,562
2025	73,837
2026	48,796
2027	45,811
2028	45,034
Thereafter	87
Total	304,127
Less amount representing interest	(22,124)
Total operating lease liabilities	$ 282,003

The weighted average remaining lease term was 4.3 years and the weighted average discount rate was 3.3% at June 30, 2023. Operating lease cost totaled $166,595 for 2023 and $141,873 for 2022.

9. Liquidity and Availability:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, comprise the following:

	2023	2022
Cash and cash equivalents	$ 905,203	$ 2,412,490
Pledges and grants receivable - current portion	1,063,890	294,930
Other receivables	30,604	244,340
Investments	223,451	199,740
Total financial assets available within one year	2,223,148	3,151,500
Less:		
Net assets with donor restrictions:		
Endowment fund	(110,863)	(99,099)
Funding-purpose restriction	(1,797,151)	(365,220)
Net assets with board-desingations	(95,312)	(85,197)
Total financial assets available for general expenditure	$ 219,822	$ 2,601,984

The Organization has a policy to manage its liquidity following two guiding principles: operating within a prudent range of financial stability and maintaining adequate liquidity to fund near-term operations.

10. Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"):

<u>Paycheck Protection Program Loan</u>

In response to the economic instability caused by COVID-19, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed by Congress and signed into law by the President on March 27, 2020. The Paycheck Protection Program ("PPP") was a component of the CARES Act and provided for a loan ("PPP Loan") to provide a direct incentive for employers to keep their employees on the payroll. A PPP Loan is eligible for full or partial forgiveness if the funds are used for qualifying costs including payroll, rent, mortgage interest, or utilities during the covered period, as further defined in the CARES Act.

As of July 1, 2021, the Organization had an outstanding PPP Loan of $550,705, which was received in April 2020. The Organization applied for loan forgiveness and received notice of full loan forgiveness on July 28, 2021. The gain from forgiveness of the PPP Loan is included in the accompanying consolidated statement of activities for the year ended June 30, 2022.

<u>Shuttered Venue Operator Grant ("SVOG")</u>

In response to the effects of COVID-19 on live venues and operators, live venue promoters, theatrical producers, talent representatives, live performing arts organization operators, museums, and motion picture theaters, the SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. The program included over $16 billion in grants to shuttered venues, to be administered by Small Business Administration's Office of Disaster Assistance.

On September 24, 2021, the Organization was awarded a SVOG of $2,385,006 through the SVOG program under the classification of a live venue operator or promoter. The grant is reflected separately in the accompanying consolidated statement of activities for the year ended June 30, 2022.

<u>Employee Retention Credits</u>

The CARES Act also provided for Employee Retention Credits ("ERC") that were designed to encourage eligible employers to keep employees on their payroll despite experiencing an economic hardship related to COVID-19. Additional legislation was passed by Congress that extended and modified the ERC. The credit consists of a refundable payroll tax credit for 70% of eligible wages paid by employers to employees. The Organization has accounted for the ERC in accordance with FASB ASC 958-605 with the ERC income of $492,561 included in contributions and grants in the accompanying consolidated statement of activities for the year ended June 30, 2022, and amounts to be refunded of $232,940 included in other receivables on the accompanying consolidated statement of financial position for the year ended June 30, 2022. During 2023 the remaining funds were received in full.

11. Contingencies:

From time to time, the Organization is involved in litigation that it considers to be in the normal course of business. The Organization is not currently involved in any legal proceedings which management expects individually or in the aggregate to have a material adverse effect on its financial position or results of operations.

12. Accounting Standards Updates:

Credit Losses: In June 2016, the FASB issued ASU No. 2016-13 ("ASU 2016-13"), *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The ASU replaces the current incurred loss model used to measure impairment losses with an expected loss model for trade and other receivables. The standard is effective for non-public entities for annual reporting periods beginning after December 15, 2022, with early adoption permitted. ASU 2016-13 is effective for the Organization for the year ending June 30, 2024. The Organization is currently evaluating the impact that the adoption of Topic 326 will have on its consolidated financial statements.