

CHESAPEAKE SHAKESPEARE COMPANY

FINANCIAL REPORT

AUGUST 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Chesapeake Shakespeare Company
Baltimore, Maryland

We have audited the accompanying financial statements of Chesapeake Shakespeare Company (a nonprofit corporation), which comprise the statements of financial position as of August 31, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Shakespeare Company as of August 31, 2020 and 2019, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
December 14, 2020

CHESAPEAKE SHAKESPEARE COMPANY
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2020 AND 2019

ASSETS

	2020	2019
Current assets		
Cash and cash equivalents	\$ 465,052	\$ 521,763
Accounts receivable	1,031	50,127
Contributions receivable, net	30,360	70,756
Prepaid expenses	5,188	27,734
Total current assets	501,631	670,380
Property and equipment, net	4,418,937	4,163,296
Other assets		
Long-term contributions receivable, net	53,126	77,807
Investments	175,010	-
Liquor license, net	27,000	30,000
Cash - Board designated - Working capital reserve	20,000	20,000
Cash - Restricted in perpetuity - Working capital reserve	28,000	25,000
	303,136	152,807
Total assets	\$ 5,223,704	\$ 4,986,483

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 18,136	\$ 36,940
Deferred revenue	70,347	141,508
Line of credit	415,004	-
Paycheck protection program loan	91,686	-
Total current liabilities	595,173	178,448
Long-term liabilities		
Line of credit	-	374,938
Paycheck protection program loan	73,901	-
Total long-term liabilities	73,901	374,938
Total liabilities	669,074	553,386
Net assets		
Without donor restrictions:		
Operating	143,717	15,934
Board designated - Working capital reserve	20,000	20,000
Net investment in property and equipment	4,003,932	3,788,358
	4,167,649	3,824,292
With donor restrictions	386,981	608,805
Total net assets	4,554,630	4,433,097
Total liabilities and net assets	\$ 5,223,704	\$ 4,986,483

See independent auditor's report and notes to financial statements.

CHESAPEAKE SHAKESPEARE COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2020

	-----Without Donor Restrictions-----					
	Operating	Board Designated	Net Investment in Property and Equipment	Total Unrestricted	With Donor Restrictions	Total
Revenues, gains and other support:						
Contributions, grants and sponsorships	\$1,234,034	\$ -	\$ -	\$ 1,234,034	\$ 43,621	\$ 1,277,655
Capital improvements contributions	-	-	-	-	50,000	50,000
In-kind contributions	203,868	-	-	203,868	-	203,868
Educational programs	121,204	-	-	121,204	-	121,204
Ticket sales	314,586	-	-	314,586	-	314,586
Concession sales	50,687	-	-	50,687	-	50,687
Other revenue	48,375	-	-	48,375	-	48,375
Release from restriction	(49,273)	-	364,718	315,445	(315,445)	-
Total revenues, gains and support	<u>1,923,481</u>	<u>-</u>	<u>364,718</u>	<u>2,288,199</u>	<u>(221,824)</u>	<u>2,066,375</u>
Expenses:						
Program	1,202,143	-	134,230	1,336,373	-	1,336,373
Management and general	406,943	-	14,914	421,857	-	421,857
Fundraising	186,612	-	-	186,612	-	186,612
Total expenses	<u>1,795,698</u>	<u>-</u>	<u>149,144</u>	<u>1,944,842</u>	<u>-</u>	<u>1,944,842</u>
Change in net assets	127,783	-	215,574	343,357	(221,824)	121,533
Net assets, beginning of year	15,934	20,000	3,788,358	3,824,292	608,805	4,433,097
Net assets, end of year	<u>\$ 143,717</u>	<u>\$ 20,000</u>	<u>\$ 4,003,932</u>	<u>\$ 4,167,649</u>	<u>\$ 386,981</u>	<u>\$ 4,554,630</u>

See independent auditor's report and accompanying notes to the financial statements.

CHESAPEAKE SHAKESPEARE COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2019

	-----Without Donor Restrictions-----					
	Operating	Board Designated	Net Investment in Property and Equipment	Total Unrestricted	With Donor Restrictions	Total
Revenues, gains and other support:						
Contributions, grants and sponsorships	\$ 811,312	\$ -	\$ -	\$ 811,312	\$ 351,010	\$ 1,162,322
Capital improvements contributions	-	-	-	-	210,000	210,000
In-kind contributions	202,418	-	-	202,418	-	202,418
Educational programs	350,746	-	-	350,746	-	350,746
Ticket sales	594,117	-	-	594,117	-	594,117
Concession sales	61,335	-	-	61,335	-	61,335
Other revenue	17,792	-	-	17,792	-	17,792
Release from restriction	(74,963)	-	188,663	113,700	(113,700)	-
Total revenues, gains and support	<u>1,962,757</u>	<u>-</u>	<u>188,663</u>	<u>2,151,420</u>	<u>447,310</u>	<u>2,598,730</u>
Expenses:						
Program	1,533,143	-	131,457	1,664,600	-	1,664,600
Management and general	420,121	-	14,606	434,727	-	434,727
Fundraising	195,318	-	-	195,318	-	195,318
Total expenses	<u>2,148,582</u>	<u>-</u>	<u>146,063</u>	<u>2,294,645</u>	<u>-</u>	<u>2,294,645</u>
Change in net assets	(185,825)	-	42,600	(143,225)	447,310	304,085
Net assets, beginning of year	201,759	20,000	3,745,758	3,967,517	161,495	4,129,012
Net assets, end of year	<u>\$ 15,934</u>	<u>\$ 20,000</u>	<u>\$ 3,788,358</u>	<u>\$ 3,824,292</u>	<u>\$ 608,805</u>	<u>\$ 4,433,097</u>

See independent auditor's report and accompanying notes to financial statements.

CHESAPEAKE SHAKESPEARE COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2020

	Program	Management and General	Fundraising	Total Expenses
Accounting	\$ -	\$ 10,400	\$ -	\$ 10,400
Amortization	3,000	-	-	3,000
Bank fees	-	3	370	373
Box office fees	47,423	-	-	47,423
Building maintenance	-	26,472	-	26,472
Concessions	30,727	-	-	30,727
Consultants	-	20,000	4,667	24,667
Depreciation	134,230	14,914	-	149,144
Dues and subscriptions	6,638	-	5,645	12,283
Education - staff	70,157	-	-	70,157
Education - technical	2,907	-	-	2,907
Education - supplies	1,850	-	-	1,850
Education - other	5,324	-	-	5,324
Fundraising events	-	-	26,643	26,643
Institutional marketing	20,555	-	-	20,555
Insurance	20,378	2,264	-	22,642
Interest	-	16,859	-	16,859
Legal fees	-	2,638	-	2,638
Miscellaneous	-	3,623	3,430	7,053
Office	10,317	1,146	45	11,508
Payroll	406,050	204,410	111,105	721,565
Payroll taxes and employee benefits	75,848	38,229	20,973	135,050
Payroll service fees	-	1,969	-	1,969
Postage and shipping	-	493	12,826	13,319
Production - rehearsal and performance site	170	-	-	170
Production - staff	188,920	-	-	188,920
Production - technical	28,892	-	-	28,892
Program - marketing	92,935	-	-	92,935
Rent	146,453	67,623	-	214,076
Shop supplies	3,061	-	-	3,061
Staff and Board development	-	2,701	908	3,609
Travel	-	3,609	-	3,609
Utilities	40,538	4,504	-	45,042
Total expenses	<u>\$ 1,336,373</u>	<u>\$ 421,857</u>	<u>\$ 186,612</u>	<u>\$ 1,944,842</u>

See independent auditor's report and accompanying notes to the financial statements.

CHESAPEAKE SHAKESPEARE COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

	Program	Management and General	Fundraising	Total Expenses
Accounting	\$ -	\$ 10,590	\$ -	\$ 10,590
Amortization	3,000	-	-	3,000
Bank fees	-	168	-	168
Box office fees	65,807	-	-	65,807
Building maintenance	-	37,528	-	37,528
Concessions	41,973	-	-	41,973
Depreciation	131,457	14,606	-	146,063
Dues and subscriptions	9,251	-	-	9,251
Education program	225,050	-	-	225,050
Fundraising	-	-	62,325	62,325
Institutional marketing	40,048	-	-	40,048
Insurance	20,543	2,283	-	22,826
Interest	-	17,332	-	17,332
Legal fees	-	2,831	-	2,831
Miscellaneous	-	23,061	-	23,061
Office	11,145	1,238	-	12,383
Payroll	438,110	211,340	111,095	760,545
Payroll taxes and employee benefits	86,010	41,657	21,898	149,565
Payroll service fees	-	1,874	-	1,874
Postage and shipping	-	1,015	-	1,015
Production - rehearsal and performance site	26,146	-	-	26,146
Production - staff	215,936	-	-	215,936
Production - technical	41,193	-	-	41,193
Program - marketing	108,808	-	-	108,808
Rent	152,516	54,333	-	206,849
Shop supplies	2,467	-	-	2,467
Staff and Board development	-	3,296	-	3,296
Travel	-	6,559	-	6,559
Utilities	45,140	5,016	-	50,156
Total expenses	\$ 1,664,600	\$ 434,727	\$ 195,318	\$ 2,294,645

See independent auditor's report and accompanying notes to the financial statements.

CHESAPEAKE SHAKESPEARE COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 121,533	\$ 304,085
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	149,144	146,063
Amortization expense	3,000	3,000
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	49,096	(38,487)
Contributions receivable, net	65,077	(31,267)
Prepaid expenses	22,546	1,141
Increase (decrease) in:		
Accounts payable and accrued expenses	(18,804)	2,117
Deferred revenue	(71,161)	(16,121)
Net cash provided by operating activities	320,431	370,531
Cash flows from investing activities:		
Purchases of property and equipment	(404,785)	(93,601)
Purchases of investments	(175,010)	-
Net cash used in investing activities	(579,795)	(93,601)
Cash flows from financing activities:		
Payments on line of credit	(209,934)	(95,062)
Advances from line of credit	250,000	-
Proceeds from paycheck protection program loan	165,587	-
Net cash provided by (used in) financing activities	205,653	(95,062)
Net (decrease) increase in cash	(53,711)	181,868
Cash and cash equivalents, beginning of year	566,763	384,895
Cash and cash equivalents, end of year	\$ 513,052	\$ 566,763
Supplemental cash flow information:		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 16,859	\$ 17,332

See independent auditor's report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. ORGANIZATION AND PURPOSE

Chesapeake Shakespeare Company (the Company) was established in 2002 as a nonprofit group providing indoor and outdoor live theatre performances, as well as educational programs. According to the Company's mission: "Chesapeake Shakespeare Company brings great classic theatre to Baltimore City, Howard County, the state of Maryland, and beyond, with vigorous, innovative, comprehensible, pleasurable productions of Shakespeare and other plays of classic stature, productions that reach into the audience and involve and excite them. As a dynamic educational resource, we introduce Shakespeare to schoolchildren with lively, relevant programming. We aim to serve both committed theatre-goers and people who are attending theatre for the first time in settings that are informal and relaxed, with a quirky sensibility that reflects our city."

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company maintains its financial records and prepares its financial statements on the accrual basis of accounting. Therefore, revenues and related assets are recognized when earned, and expenses and related liabilities are recognized when the obligations are incurred.

Basis of Presentation

The Company follows the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 — Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

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 Company. These net assets may be used at the discretion of the Company's management and the Board of Trustees.

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 Company or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company considers money market accounts used to fund operations to be cash equivalents but excludes money markets in the investment portfolio from cash equivalents. At August 31, 2020, the Company's cash exceeded the federally insured limit of \$250,000 per financial institution by \$256,935.

The following is a reconciliation to total cash, cash equivalents, and restricted cash reported within the Statements of Financial Position that sum to the total of the same such amounts shown on the Statements of Cash Flows at August 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 465,052	\$ 521,763
Cash – Board designated – Working capital reserve	20,000	20,000
Cash – Restricted in perpetuity – Working capital reserve	28,000	25,000
Total Cash, cash equivalents, and restricted cash shown in the Statements of Cash Flows	<u>\$ 513,052</u>	<u>\$ 566,763</u>

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Market Value Risk

The Company invests funds in a professionally managed portfolio. Such investments are exposed to market and credit risks. The Company's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during the subsequent periods.

Income Taxes

The Company is a nonprofit entity and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, contributions to the Company are tax deductible under Section 170 of the Internal Revenue Code. The Company files an IRS Form 990-T, when required, to report all unrelated business income annually. The Company's unrelated business income arises from the sale of advertising in the performance programs. The Company is not classified as a private foundation by the Internal Revenue Service.

The Company adopted the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) for Accounting of Uncertainty in Income Taxes without any material effect to the financial statements. The Company has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Company believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Company's financial condition, results of operations or cash flows. Accordingly, the Company has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at August 31, 2020 or 2019. The Company's returns remain open for three years for federal and state examinations.

Advertising Costs

The Company advertises its productions in print and other media. The costs for such advertisements are expensed when incurred. Total advertising expense for the years ended August 31, 2020 and 2019 was \$50,546 and \$48,152, respectively, and is included in Program – marketing and Institutional marketing on the Statements of Functional Expenses.

Revenue Recognition

On May 28, 2014, Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update outlines a new, single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. Additionally, in June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, with the stated purpose of providing guidance in evaluating whether transactions should be accounted for as contributions or exchanges. In addition, the update introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue. Analysis of various provisions of these standards resulted in no significant changes in the way the Company recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

NOTES TO FINANCIAL STATEMENTS

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue Recognition (continued)

The Company recognizes revenue from educational program, ticket and concession sales during the year in which the related services are provided to customers. The performance obligation of delivering these services is simultaneously received and consumed by the customers; therefore, the revenue is recognized in the applicable fiscal year. Revenue received which relates to subsequent years is recorded as deferred revenue in the Statement of Financial Position.

The Company recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give—that is, those with a measurable performance or other barrier and a right of return—are not recognized until the conditions on which they depend have been met.

Contributions, Grants, and Support

Contributions are considered to be without donor restrictions unless specifically restricted by the donor. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities. Revenue received with donor restrictions that are met in the same reporting period is reported as support without donor restrictions, and increases net assets without donor restrictions.

Contributions receivable are reported in the Statement of Financial Position at the outstanding contribution balance adjusted for any write-offs and an allowance for potentially uncollectible contributions.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at an adjusted risk-free rate of return. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. The Company periodically reviews all contributions receivable and determines the allowance for potentially uncollectible contributions receivable based upon an analysis of the collectibility of each account. An allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Contributions receivable due in greater than twelve months beyond the Statement of Financial Position date are discounted at 5% at August 31, 2020 and 2019 and through the expected term of the promises to give.

Contributions of cash restricted for the acquisition of long-lived assets are reported as restricted support that increases net assets with donor restrictions. The restrictions are released when the long-lived assets are acquired or placed in service by the Company. Contributions of property and equipment are recorded as revenue without donor restrictions unless donor stipulations specify how the assets are to be used.

Accounts Receivable and Allowance for Potentially Uncollectible Accounts

Accounts receivable are reported in the Statement of Financial Position at the outstanding billed balance adjusted for any write-offs and an allowance for potentially uncollectible accounts receivable. An allowance is determined for potentially uncollectible accounts receivable based on management's judgment, past collection experience and other relevant factors. Amounts deemed to be uncollectible are written off against the allowance when it is determined they are uncollectible. Receivables are considered past due based on contractual terms.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services, Materials, and Facilities

Donated services are recognized as contributions in accordance with the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification for Not-for-Profit Entities Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to Property and equipment.

Donations of materials are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as donor-restricted contributions.

Subsequent Events

The Company has evaluated events and transactions for potential recognition or disclosure through December 14, 2020, the date that these financial statements were available to be issued.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the Statement of Activities and in detail in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Depreciation and amortization	Square footage
Insurance	Employee ratio
Office	Square footage
Payroll	Time and effort
Payroll taxes and benefits	Time and effort
Rent	Square footage
Utilities	Square footage

Fair Value of Financial Instruments

The *Fair Value Measurements and Disclosures* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

That framework establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. The framework requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

NOTES TO FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments (continued)

Assets measured at fair value on a recurring basis at August 31, 2020 are as follows:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 175,010	-	-	\$ 175,010

Note 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Company's financial assets as of August 31, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include donor-restricted and Board designated funds. However, amounts already appropriated from donor-restricted for general expenditures within one year of the statement of financial position date have not been subtracted as unavailable.

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 465,052	\$ 521,763
Accounts receivable	1,031	50,127
Contributions receivable, net	83,486	148,563
Cash – Board designated	20,000	20,000
Cash – restricted in perpetuity	28,000	25,000
Total financial assets	597,569	765,453
Less amounts not available to be used for general expenditures within one year:		
Assets subject to contractual or donor restriction	386,981	608,805
Assets designated by Board of Trustees	20,000	20,000
Total financial assets not available to be used within one year	406,981	628,805
Financial assets available to meet general expenditures within one year	\$ 190,588	\$ 136,648

The Company has certain donor-restricted assets which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year.

Note 4. CONTRIBUTIONS RECEIVABLE

Management believes the full amount of contributions receivable to be collectible, thus no allowance for potentially uncollectible contributions receivable has been recorded. Management has elected to use 5% as the discount rate. Contributions receivable relate to the following purposes at August 31, 2020 and 2019:

	2020	2019
Capital improvements	\$ -	\$ 3,550
Other contributions receivable	83,486	145,013
Net contributions receivable	\$ 83,486	\$ 148,563

The following schedule summarizes the Company's aging contributions receivable as of August 31, 2020 and 2019:

	2020	2019
Contributions receivable	\$ 90,360	\$ 160,756
Less: Unamortized discount	(6,874)	(12,193)
Net contributions receivable	\$ 83,486	\$ 148,563

NOTES TO FINANCIAL STATEMENTS

Note 4. CONTRIBUTIONS RECEIVABLE (continued)

	2020	2019
Amounts due in:		
Less than one year	\$ 30,360	\$ 70,756
One to five years	60,000	90,000
	\$ 90,360	\$ 160,756

Note 5. PROPERTY AND EQUIPMENT

Purchased Property and equipment is recorded at cost. The Company capitalizes individual assets with a cost that is equal to \$500 or greater. Depreciation on Property and equipment is provided on the straight-line method over the estimated useful life of the asset, which ranges from 3 to 39 years. Total depreciation expense for the years ended August 31, 2020 and 2019 was \$149,144 and \$146,063, respectively. Property and equipment consist of the following as of August 31, 2020 and 2019:

	Useful life	2020	2019
Equipment	5 – 7 years	\$ 96,684	\$ 89,094
Furniture	7 years	24,970	24,970
Leasehold improvements	3 – 39 years	5,166,444	4,769,249
		5,288,098	4,883,313
Less accumulated depreciation		(869,161)	(720,017)
		\$ 4,418,937	\$ 4,163,296

Note 6. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table provides information about significant changes in the contract liabilities for the years ended August 31, 2020 and 2019:

Deferred revenue at August 31, 2018	\$ 157,629
Revenue recognized that was included in deferred revenue at the beginning of the year	(157,629)
Increase in deferred revenue due to cash received during the year	141,508
Deferred revenue at August 31, 2019	141,508
Revenue recognized that was included in deferred revenue at the beginning of the year	(118,973)
Increase in deferred revenue due to cash received during the year	47,812
Deferred revenue at August 31, 2020	\$ 70,347

Note 7. LINE OF CREDIT

The Company has a line of credit with a bank which requires monthly interest payments based on the daily LIBOR rate plus 1.65%. The original agreement allowed the Company to borrow up to \$3,500,000. During the year ended August 31, 2019, the agreement was amended to extend the maturity date to October 6, 2020 when all borrowed amounts plus accrued interest must be repaid. The amended agreement also reduced the available amount on the line of credit to \$1,500,000. The interest rate at August 31, 2020 and 2019 was 1.83% and 3.91%, respectively. At August 31, 2020 and 2019, the balance was \$415,004 and \$374,938, respectively. Interest expense for the years ended August 31, 2020 and 2019 was \$16,859 and \$17,332, respectively. This line has been personally guaranteed by two members of the Company's Board of Trustees. The lender requires the Company to meet certain loan covenants related to the line of credit. The lender determines if such covenants have been met and any outcome related to these covenants has not been reflected in these financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 8. PAYCHECK PROTECTION PROGRAM LOAN

During the year ended August 31, 2020, the Company obtained approval for a \$165,587 loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). The loan accrues interest at 1% but payments are not required until December 2020. The loan is uncollateralized and is fully guaranteed by the Federal government. The Company also received an SBA Economic Injury Disaster Loan (EIDL) advance of \$10,000 which was automatically forgiven and is included in Contributions, grants and sponsorships revenue on the Statement of Activities. The Company has 24 weeks after the funding of the loan to apply the loan proceeds toward certain permitted uses that would then serve as the basis for calculating the amount of loan forgiveness. Subsequent to August 31, 2020, \$155,587 of this loan was forgiven. The remaining balance of \$10,032 will be paid in 17 monthly installments of \$596 starting December 28, 2020.

Note 9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were as follows as of August 31, 2020 and 2019:

	2020	2019
Subject to passage of time:		
Education	\$ -	\$ 10,000
Free admission	-	25,000
FSFK	5,000	5,000
Other	108,126	155,307
Total donor restrictions - subject to passage of time	113,126	195,307
Contributions received – subject to purpose restriction:		
Providence scholarship fund	855	2,998
Capital improvements	50,000	200,500
Training	10,000	-
Bloomberg capacity	185,000	185,000
Total donor restrictions – subject to purpose restriction	245,855	388,498
Restricted in perpetuity - Working capital reserve	28,000	25,000
	\$ 386,981	\$ 608,805

Note 10. RELEASE FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended August 31, 2020 and 2019:

	2020	2019
Free admission	\$ 25,000	\$ 25,000
Education	10,000	10,000
Capital improvements	200,500	51,050
Other – time restriction	77,500	27,500
Providence scholarship fund	2,445	150
	\$ 315,445	\$ 113,700

NOTES TO FINANCIAL STATEMENTS

Note 11. BOARD DESIGNATED NET ASSETS

The Company's Board designated net assets were as follows as of August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Working Capital Reserve	<u>\$ 20,000</u>	<u>\$ 20,000</u>

Note 12. CONCENTRATION OF REVENUES

For the years ended August 31, 2020 and 2019, contribution revenue includes \$307,000 and \$290,000, respectively, of combined contributions from a private foundation of which two members of the Company's Board of Trustees are the President and Vice President of the private foundation and from the members personally. This represents approximately 17% and 12% of total revenue, gains and other support, excluding in-kind contribution revenue for the years ended August 31, 2020 and 2019, respectively.

Note 13. OPERATING LEASE COMMITMENTS

In 2013, the Company entered into an agreement to lease a building that was renovated so that it can be used for performances and office space. The renovation was completed in September 2014. The building is owned by an entity controlled by two members of the Company's Board of Trustees and the annual rent is \$120. The lease expires in 2034. Management has estimated the value of the donated space to be approximately \$120,000 per year. The value of the donated space received in each of the years ended August 31, 2020 and 2019 was \$120,000 and is included as Rent on the Statements of Functional Expenses (see Note 14).

During the year ended August 31, 2016, the Company entered into an agreement to lease two floors of a building adjacent to its current location for education, rehearsal, and office space. The lease expires December 31, 2021. The building is owned by an entity controlled by two members of the Company's Board of Trustees. Lease expense was \$92,667 and \$84,929 for the years ended August 31, 2020 and 2019, respectively and is included in Rent on the Statements of Functional Expenses. Future minimum office lease payment are as follows for years ending August 31,:

2021	\$ 101,333
2022	\$ 34,667

In 2018, the Company entered into an agreement to lease office equipment under an operating lease that expires May 2, 2022. During the year ended August 31, 2019, the monthly payment increased to \$336. During the year ended August 31, 2020, the monthly payment increased to \$347. Lease expense for the years ended August 31, 2020 and 2019 was \$4,698 and \$3,954, respectively and is included in Office in the Statements of Functional Expenses. Future minimum lease payments required under this operating lease are as follows for the years ending August 31,:

2021	\$ 4,160
2022	\$ 2,773

NOTES TO FINANCIAL STATEMENTS

Note 14. IN-KIND CONTRIBUTIONS

The company received donated goods and services which were recorded as in-kind contributions revenue, as well as the following expenses for the years ended August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Marketing	\$ 12,480	\$ 7,418
Payroll	68,750	75,000
Donated space	120,000	120,000
Professional services	2,638	-
	<u>\$ 203,868</u>	<u>\$ 202,418</u>

Note 15. COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus disease (“COVID-19”) a pandemic. On March 16, 2020, in compliance with federal guidelines and state and local government orders, the Company halted all live performances and in-person education programs. The Company expects to resume such performances and programs when public health and business conditions permit. At present it appears that this may be in the summer or fall of 2021. Lost revenue from ticket sales and program fees has substantially been offset by reduced production and personnel expenses as well as emergency funding from public and private sources.

The extent of COVID-19’s effect on the Company’s operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Company. However, if the pandemic persists as a severe health crisis beyond the summer of 2021, the disease could have a material adverse effect on the Company, its operations, financial condition, and cash flows.