

The Purple Rose Theatre Company

Financial Statements
And Independent Auditors' Report

Years Ended August 31, 2017 and 2016

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WILLIS & JURASEK

CPAS AND CONSULTANTS

Independent Auditors' Report

Board of Directors
The Purple Rose Theatre Company
Chelsea, Michigan

We have audited the accompanying statements of financial position of The Purple Rose Theatre Company (a nonprofit organization) which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 auditors consider 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 The Purple Rose Theatre Company as of August 31, 2017 and 2016, 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 of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

December 14, 2017

The Purple Rose Theatre Company

Statements of Financial Position

August 31, 2017 and 2016

Assets

	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 362,813	\$ 65,711
Restricted cash and cash equivalents	377,261	374,282
Accounts receivable	719	715
Pledges receivable - current	303,191	227,861
Inventory	25,788	94,268
Prepaid expenses	68,055	55,994
Total current assets	1,137,827	818,831
Property and Equipment:		
Land	100,000	100,000
Building and improvements	2,419,553	2,301,360
Furniture, fixtures and office equipment	66,952	64,306
Theatre and shop equipment	139,835	125,235
Vehicles	5,511	5,511
	2,731,851	2,596,412
Less: accumulated depreciation	1,103,651	1,031,013
Net property and equipment	1,628,200	1,565,399
Other Assets:		
Investments	365,905	361,094
Pledges receivable - long-term	821,250	1,377,000
Total other assets	1,187,155	1,738,094
	\$ 3,953,182	\$ 4,122,324

Liabilities and Net Assets

Current Liabilities:		
Line of credit payable	\$ 53,500	\$ 87,000
Accounts payable	27,250	26,566
Accrued expenses	11,456	11,877
Deferred revenue	145,863	139,116
Total current liabilities	238,069	264,559
Net Assets:		
Unrestricted	1,955,260	1,878,622
Temporarily restricted	1,759,853	1,979,143
Total net assets	3,715,113	3,857,765
	\$ 3,953,182	\$ 4,122,324

See Notes to Financial Statements.

The Purple Rose Theatre Company

Statements of Activities

Years Ended August 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:						
Public Support:						
Contributions and benefit income	\$ 329,554	\$ 568,977	\$ 898,531	\$ 788,405	\$ 1,933,541	\$ 2,721,946
In-kind contributions	5,466	-	5,466	18,590	-	18,590
Net assets released from restrictions	788,267	(788,267)	-	240,257	(240,257)	-
Total public support	<u>1,123,287</u>	<u>(219,290)</u>	<u>903,997</u>	<u>1,047,252</u>	<u>1,693,284</u>	<u>2,740,536</u>
Revenue:						
Ticket and program	1,096,838	-	1,096,838	1,129,887	-	1,129,887
Education outreach	24,353	-	24,353	28,863	-	28,863
Miscellaneous	21,964	-	21,964	27,483	-	27,483
Investment income	12,922	-	12,922	15,537	-	15,537
Total revenue	<u>1,156,077</u>	<u>-</u>	<u>1,156,077</u>	<u>1,201,770</u>	<u>-</u>	<u>1,201,770</u>
Total public support and revenue	<u>2,279,364</u>	<u>(219,290)</u>	<u>2,060,074</u>	<u>2,249,022</u>	<u>1,693,284</u>	<u>3,942,306</u>
Expenses:						
Program Services:						
Production	1,527,140	-	1,527,140	1,476,791	-	1,476,791
Education outreach	132,117	-	132,117	149,673	-	149,673
Total program services	<u>1,659,257</u>	<u>-</u>	<u>1,659,257</u>	<u>1,626,464</u>	<u>-</u>	<u>1,626,464</u>
Support Services:						
General and administrative	209,501	-	209,501	251,137	-	251,137
Development and special events	333,968	-	333,968	367,124	-	367,124
Total support services	<u>543,469</u>	<u>-</u>	<u>543,469</u>	<u>618,261</u>	<u>-</u>	<u>618,261</u>
Total expenses	<u>2,202,726</u>	<u>-</u>	<u>2,202,726</u>	<u>2,244,725</u>	<u>-</u>	<u>2,244,725</u>
Changes in Net Assets	76,638	(219,290)	(142,652)	4,297	1,693,284	1,697,581
Net Assets - Beginning of Year	<u>1,878,622</u>	<u>1,979,143</u>	<u>3,857,765</u>	<u>1,874,325</u>	<u>285,859</u>	<u>2,160,184</u>
Net Assets - End of Year	<u>\$ 1,955,260</u>	<u>\$ 1,759,853</u>	<u>\$ 3,715,113</u>	<u>\$ 1,878,622</u>	<u>\$ 1,979,143</u>	<u>\$ 3,857,765</u>

See Notes to Financial Statements.

The Purple Rose Theatre Company

Statements of Cash Flows
Years Ended August 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ (142,652)	\$ 1,697,581
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	76,557	70,933
Loss (gain) on asset disposal	2,085	224
Realized (gain) loss on sale of investments	403	38
Unrealized (gain) loss on investments	(4,739)	(11,716)
In-kind contributions	(5,466)	(18,590)
In-kind expenses	5,466	16,590
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(4)	(282)
Pledges receivable	480,420	(1,392,004)
Inventory	68,480	(78,026)
Prepaid expenses	(12,061)	19,428
Accounts payable	684	(511)
Accrued expenses	(421)	(3,478)
Deferred revenue	6,747	7,514
Total adjustments	618,151	(1,389,880)
Net cash provided (used) by operating activities	475,499	307,701
Cash Flows From Investing Activities:		
Purchase of fixed assets	(141,442)	(30,650)
Sale of investments	100,007	100,909
Purchase of investments	(100,483)	(150,000)
Net cash provided (used) by investing activities	(141,918)	(79,741)
Cash Flows From Financing Activities:		
Net proceeds on line of credit	(33,500)	33,500
Net cash provided (used) by investing activities	(33,500)	33,500
Increase (Decrease) in Cash and Cash Equivalents	300,081	261,460
Cash and Cash Equivalents - Beginning of Year	439,993	178,533
Cash and Cash Equivalents - End of Year	\$ 740,074	\$ 439,993
Cash as Reported on the Statement of Financial Position:		
Cash and cash equivalents	\$ 362,813	\$ 65,711
Restricted cash and cash equivalents	377,261	374,282
	\$ 740,074	\$ 439,993
Supplemental Information:		
Cash paid during the year for:		
Income taxes	\$ 2,322	\$ 199
Interest	\$ 1,112	\$ 2,787

See Notes to Financial Statements.

The Purple Rose Theatre Company

Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies

Nature of Activities

The Purple Rose Theatre Company (the "Theatre") was incorporated in Michigan in 1990 for the purpose of promoting interest in non-profit professional theatre. The Theatre furthers this purpose by performing plays primarily in Chelsea, Michigan, creating opportunities for Midwest theatre professionals, and participating in educational outreach programs in the lower mid-Michigan area. Substantial portions of the Theatre's revenues are received from general donations, grants and ticket sales.

Basis of Accounting

The accompanying financial statements of the Theatre have been prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). Under these professional standards, the Theatre is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly-liquid debt instruments with original maturities of three months or less. At times, the cash balances exceed FDIC insurance limits and the uninsured balances may be significant. At August 31, 2017 and 2016, the uninsured balances were approximately \$534,000 and \$207,000, respectively.

Restricted cash and cash equivalents consist of monies received but not yet spent for purposes intended per the donors. For the year ended August 31, 2017, the total amount restricted was \$377,261; \$262,132 for capital campaign expenses, \$25,510 for World Premiere Fund, \$600 for endowment, and \$89,019 for which the donor has yet to name the restricted purpose. For the year ended August 31, 2016, the total amount restricted was \$374,282; \$370,282 for capital campaign expenses and \$4,000 for library readings.

Receivables

The Theatre holds various types of receivables - accounts receivable which consist of ticket sales for a show budgeted and performed in the fiscal year, but the monies were not actually received until after year-end, and contributions receivable (pledges, i.e. promises to give) which are recorded at fair value when pledged. Based upon historical data, management considers all receivables to be collectable, and thus no provision for uncollectable accounts is deemed necessary. All long-term pledges receivable are due within one to five years.

The Purple Rose Theatre Company
Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies (Continued)

Inventory

Inventories are stated at cost (purchase price), determined by the first-in, first-out method. Inventory consists of 25th Anniversary books and promotional items, such as shirts, hats and coffee mugs.

Prepaid Expenses

Prepaid expenses generally consist of expenses incurred for next year productions.

Property and Equipment

Generally, the Theatre capitalizes all property and equipment with useful lives greater than one year. Property and equipment acquisitions are accounted for at cost or if donated, are recorded at fair market value when received. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, which range from five to twenty years. Depreciation expense for the reported years was \$76,557 and \$70,933, respectively.

Investments and Fair Value Measurements

Investments are stated at fair value which is determined based upon market value at the end of the fiscal year. Investments with original maturity dates of one year or less are recorded as current assets, and those with original maturities of more than one year are recorded as other assets in the Statements of Financial Position.

The Theatre applies generally accepted accounting principles (GAAP) for the fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements (Note 2).

Income Tax Status

The Theatre is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as amended. The Theatre is subject to taxation on "unrelated business income" resulting from the sale of inventory. Federal income tax expenses were \$2,322 and \$199 for each year, respectively.

Professional standards require an analysis of uncertain tax positions for the purpose of determining whether benefits associated with those positions may be recognized for financial statement purposes. Based on this analysis, the Theatre has determined it has no material uncertain tax positions for which the associated benefits may not be recognized nor for which disclosure is required.

Contributions

The Theatre accounts for contributions as required by the Not-For-Profit Topic of the Financial Accounting Standards Board Accounting Standards Codification. In accordance with this guidance, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions received are required to be recorded at fair market value.

The Purple Rose Theatre Company

Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies (Continued)

Contributions (Continued)

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. If donor-restricted contributions are received and the restricted use is met within the same fiscal year, the support is reported as unrestricted contributions.

Contributed Goods and Services

During the year, contributed goods and services meeting the requirements for recognition in the financial statements, including props, set dressings, costumes, royalties, and fixed assets, have been recorded at the fair value of the donations received. Total value of donated goods and services included in expenses and fixed assets were approximately \$5,000 and \$19,000, for each year-end, respectively.

Advertising

Advertising costs are expensed as incurred; the expense recognized for each year-end was approximately \$155,000 and \$196,000, respectively.

Reclassifications

Certain balances in the prior year financial statements may have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications, if any, have no impact on net income.

Subsequent Events

The Theatre has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. Investments and Fair Value Measurements

FASB Codification Topic, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

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

Level 2 Fair Value Measurements: Inputs to the valuation methodology include:

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

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

The Purple Rose Theatre Company
Notes to Financial Statements

2. Investments and Fair Value Measurements (Continued)

Level 3 Fair Value Measurements: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value.

- *Certificates of deposit:* Valued at market value based upon broker supplied information
- *Mutual funds:* Valued at the market price as provided by brokerage

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Theatre believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents assets that are measured at fair value on a recurring basis at each fiscal year-end:

	2017	2016
	Level 1	Level 1
Certificates of deposit	\$ 300,692	\$ 303,056
Mutual funds	65,213	58,038
Total assets at fair value	\$ 365,905	\$ 361,094

The Theatre has no Level 2 or Level 3 investments.

3. Line of Credit

The Organization has a \$150,000 revolving line of credit with a local bank. Advances on the credit line are payable on demand and carry an interest rate of 5%. The credit line is secured by substantially all assets and matures December 17, 2017. The balances on the line as of August 31, 2017 and 2016 were \$53,500 and \$87,000, respectively. Interest expense for the years was \$1,135 and \$2,695, respectively.

4. Related Party Transactions

Related party transactions include Board member cash donations, varying in amounts.

5. Leases

Rehearsal space lease expense was \$27,440 and \$24,000 for the years ended August 31, 2017 and 2016, respectively. The Theatre rented rehearsal space under a three-year operating lease agreement dated December 1, 2014 and expiring November 30, 2017. The Theatre entered into a new agreement for a five-year operating lease dated February 1, 2017 and expiring January 1, 2022, with options to renew for two additional five-year terms.

The Purple Rose Theatre Company
Notes to Financial Statements

5. Leases (Continued)

Future minimum rent payments required under the operating leases are estimated as follows:

<u>Fiscal Years</u>	<u>Amount</u>
2018	\$28,080
2019	22,080
2020	22,080
2021	22,080
2022	9,200

Short-term operating leases for storage space totaled \$6,005 and \$4,435, respectively.

6. Union Agreement, Pension and Welfare Plans

The Theatre participates in a collective bargaining agreement with the Actors' Equity Association for performing artist services which represent approximately 29% and 30% of the total salaries incurred for the reported years, respectively.

The Theatre contributes to the Actor Equity Association Pension and Welfare Plan on behalf of applicable equity actor union employees. The pension contribution amounts are based on a set percentage of the equity actor's salary. The welfare contribution amount is based on the number of weeks the equity actor is employed by the Theatre. Amounts contributed for the years ended August 31, 2017 and 2016, were approximately \$109,000 and \$121,000, respectively.

The Theatre maintains a SIMPLE Plan for eligible employees not covered by the above plan. The contributions are matching up to 2% of gross wages. Total SIMPLE contributions for the years ended August 31, 2017 and 2016, were \$8,856 and \$7,384, respectively.

7. Restrictions on Net Assets

Temporary restrictions on net assets at August 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Play sponsorship for next season	\$ 9,819	\$ -
Comprehensive capital campaign	625,593	370,282
Chelsea District Library readings	-	4,000
Pledges for future years	<u>1,124,441</u>	<u>1,604,861</u>
 Total temporarily restricted net assets	 <u>\$ 1,759,853</u>	 <u>\$ 1,979,143</u>

8. Concentrations

There were no contributors deemed major for the fiscal year 2017. For fiscal year 2016, two major contributors represented approximately 58% of total contributions, which was 87% of pledges receivable as of that year-end.

For labor concentrations, see Note 6.

Supplemental Information

The Purple Rose Theatre Company
Schedule of Funtional Expenses
For the Year Ended August 31, 2017
(With Comparative Amounts for the Year Ended August 31, 2016)

	<u>Program Services</u>		<u>Supporting Services</u>		<u>2017 Total</u>	<u>2016 Total</u>
	<u>Production</u>	<u>Education Outreach</u>	<u>General & Administrative</u>	<u>Development & Special Events</u>		
Personnel (salaries, payroll taxes, and benefits)	\$ 748,999	\$ 91,821	\$ 145,937	\$ 201,894	\$ 1,188,651	\$ 1,277,182
Playwright and royalties	86,964	-	-	-	86,964	89,507
Direct production costs, non-personnel	329,720	-	-	-	329,720	287,603
Direct education outreach expense	-	11,482	-	-	11,482	12,854
Professional fees	-	-	16,375	-	16,375	20,561
Supplies	8,871	1,481	3,094	1,428	14,874	17,221
Utilities	18,964	5,619	8,429	2,107	35,119	38,544
Telephone	6,409	1,187	2,849	1,424	11,869	12,557
Maintenance, repairs, and equipment rentals	20,667	1,856	2,785	696	26,004	25,114
Marketing, general development, and special events	154,832	-	-	119,418	274,250	333,109
Auto and travel	14,295	462	693	173	15,623	11,500
Interest	-	-	1,135	-	1,135	2,695
Depreciation and amortization	41,341	12,249	18,374	4,593	76,557	70,933
Other expenses	96,078	5,960	9,830	2,235	114,103	45,345
Total	\$ 1,527,140	\$ 132,117	\$ 209,501	\$ 333,968	\$ 2,202,726	\$ 2,244,725