

The Purple Rose Theatre Company

Financial Statements
And Independent Auditors' Report

Years Ended August 31, 2020 and 2019

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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 financial statements of The Purple Rose Theatre Company (a nonprofit organization) 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.

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 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 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, 2020 and 2019, 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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

January 4, 2021

The Purple Rose Theatre Company

Statements of Financial Position

August 31, 2020 and 2019

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 585,302	\$ 266,972
Restricted cash and cash equivalents	1,012,497	766,777
Receivables - current	339,345	473,985
Inventory	5,163	3,635
Prepaid expenses	11,545	64,163
Total current assets	<u>1,953,852</u>	<u>1,575,532</u>
Property and Equipment:		
Land	100,000	100,000
Building and improvements	2,824,728	2,782,027
Furniture, fixtures and office equipment	83,491	80,932
Theatre and shop equipment	190,957	172,194
Vehicles	38,117	38,117
	<u>3,237,293</u>	<u>3,173,270</u>
Less: accumulated depreciation	1,355,081	1,273,598
Net property and equipment	<u>1,882,212</u>	<u>1,899,672</u>
Other Assets:		
Investments	1,233,442	1,055,309
Pledges receivable - long-term, net of unamortized discount	98,280	381,678
Beneficial interest in assets held at community foundation	304,998	298,397
Total other assets	<u>1,636,720</u>	<u>1,735,384</u>
	<u>\$ 5,472,784</u>	<u>\$ 5,210,588</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities:		
Current portion of long-term debt	\$ 141,097	\$ -
Accounts payable	8,145	18,100
Accrued expenses	9,113	28,823
Deferred revenue	159,194	192,004
Total current liabilities	<u>317,549</u>	<u>238,927</u>
Long-Term Debt, Net of Current Portion	<u>114,752</u>	<u>-</u>
Net Assets:		
Without donor restrictions	3,285,363	3,041,736
With donor restrictions	1,755,120	1,929,925
Total net assets	<u>5,040,483</u>	<u>4,971,661</u>
	<u>\$ 5,472,784</u>	<u>\$ 5,210,588</u>

See Notes to Financial Statements.

The Purple Rose Theatre Company

Statements of Activities

Years Ended August 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:						
Public Support:						
Contributions and benefit income	\$ 545,812	\$ 633,853	\$ 1,179,665	\$ 335,756	\$ 518,894	\$ 854,650
In-kind contributions	5,651	-	5,651	25,892	-	25,892
Net assets released from restrictions	808,658	(808,658)	-	1,057,490	(1,057,490)	-
Total public support	1,360,121	(174,805)	1,185,316	1,419,138	(538,596)	880,542
Revenue:						
Ticket and program	795,430	-	795,430	1,238,638	-	1,238,638
Education outreach	15,418	-	15,418	28,397	-	28,397
Miscellaneous	9,603	-	9,603	31,068	-	31,068
Total revenue	820,451	-	820,451	1,298,103	-	1,298,103
Total public support and revenue	2,180,572	(174,805)	2,005,767	2,717,241	(538,596)	2,178,645
Expenses:						
Program Services:						
Production	1,342,339	-	1,342,339	1,577,228	-	1,577,228
Education outreach	140,407	-	140,407	144,493	-	144,493
Total program services	1,482,746	-	1,482,746	1,721,721	-	1,721,721
Support Services:						
General and administrative	252,422	-	252,422	261,718	-	261,718
Development and special events	325,287	-	325,287	378,562	-	378,562
Total support services	577,709	-	577,709	640,280	-	640,280
Total expenses	2,060,455	-	2,060,455	2,362,001	-	2,362,001
Changes in Net Assets from Operating Activities	120,117	(174,805)	(54,688)	355,240	(538,596)	(183,356)
Other Income (Expense):						
Gain/(loss) on disposals of assets	(31,729)	-	(31,729)	(1,024)	-	(1,024)
Investment income	155,239	-	155,239	78,694	(7,964)	70,730
Total other income (expense)	123,510	-	123,510	77,670	(7,964)	69,706
Changes in Net Assets	243,627	(174,805)	68,822	432,910	(546,560)	(113,650)
Net Assets - Beginning of Year	3,041,736	1,929,925	4,971,661	2,608,826	2,476,485	5,085,311
Net Assets - End of Year	\$ 3,285,363	\$ 1,755,120	\$ 5,040,483	\$ 3,041,736	\$ 1,929,925	\$ 4,971,661

See Notes to Financial Statements.

The Purple Rose Theatre Company

Statement of Functional Expenses

Year Ended August 31, 2020

	<u>Program Services</u>		<u>Supporting Services</u>		<u>2020 Total</u>
	<u>Production</u>	<u>Education Outreach</u>	<u>General & Administrative</u>	<u>Development & Special Events</u>	
Personnel (salaries, payroll taxes, and benefits)	\$ 734,422	\$ 95,587	\$ 151,922	\$ 210,175	\$ 1,192,106
Playwrights and royalties	73,216	-	-	-	73,216
Direct production costs, non-personnel	268,845	-	-	14,150	282,995
Direct education outreach expense	-	9,054	-	-	9,054
Professional fees	-	-	40,432	-	40,432
Supplies	6,760	1,533	3,216	1,324	12,833
Utilities	17,598	5,214	7,821	1,955	32,588
Telephone	10,883	2,016	4,837	2,419	20,155
Maintenance, repairs, and equipment rentals	22,514	4,745	7,118	1,779	36,156
Marketing, general development, and special events	118,170	-	-	82,137	200,307
Auto and travel	6,261	1,038	1,556	389	9,244
Depreciation and amortization	57,088	16,915	25,372	6,343	105,718
Other expenses	26,582	4,305	10,148	4,616	45,651
Total	<u>\$ 1,342,339</u>	<u>\$ 140,407</u>	<u>\$ 252,422</u>	<u>\$ 325,287</u>	<u>\$ 2,060,455</u>

See Notes to Financial Statements.

The Purple Rose Theatre Company

Statement of Functional Expenses

Year Ended August 31, 2019

	<u>Program Services</u>		<u>Supporting Services</u>		<u>2019 Total</u>
	<u>Production</u>	<u>Education Outreach</u>	<u>General & Administrative</u>	<u>Development & Special Events</u>	
Personnel (salaries, payroll taxes, and benefits)	\$ 828,503	\$ 93,781	\$ 149,053	\$ 206,205	\$ 1,277,542
Playwrights and royalties	97,011	-	-	-	97,011
Direct production costs, non-personnel	341,931	-	-	17,996	359,927
Direct education outreach expense	-	17,190	-	-	17,190
Professional fees	-	-	55,624	-	55,624
Supplies	9,798	2,181	4,537	2,301	18,817
Utilities	21,453	6,356	9,535	2,384	39,728
Telephone	9,269	1,717	4,120	2,060	17,166
Maintenance, repairs, and equipment rentals	20,251	1,368	2,052	513	24,184
Marketing, general development, and special events	154,444	-	-	136,239	290,683
Auto and travel	10,798	1,333	1,999	500	14,630
Depreciation and amortization	52,870	15,665	23,498	5,874	97,907
Other expenses	30,900	4,902	11,300	4,490	51,592
	<u>\$ 1,577,228</u>	<u>\$ 144,493</u>	<u>\$ 261,718</u>	<u>\$ 378,562</u>	<u>\$ 2,362,001</u>

See Notes to Financial Statements.

The Purple Rose Theatre Company

Statements of Cash Flows
Years Ended August 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ 68,822	\$ (113,650)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	105,718	97,907
Pledge receivables discount to net present value	7,102	20,745
Loss (gain) on asset disposal	31,729	1,024
Realized (gain) loss on sale of investments	1,933	(15,189)
Unrealized (gain) loss on investments	(125,789)	(28,380)
In-kind contributions	(5,651)	(25,892)
In-kind expenses	5,651	25,892
Changes in assets and liabilities that provided (used) cash:		
Pledges receivable	410,936	773,027
Inventory	(1,528)	2,081
Prepaid expenses	52,618	13,998
Accounts payable	(9,955)	(7,106)
Accrued expenses	(19,710)	9,917
Deferred revenue	(32,810)	(9,488)
Total adjustments	420,244	858,536
Net cash provided (used) by operating activities	489,066	744,886
Cash Flows From Investing Activities:		
Purchase of fixed assets	(119,987)	(142,173)
Sale of investments	558,159	230,667
Purchase of investments	(640,487)	(976,607)
Proceeds from beneficial interest in community foundation	21,450	13,450
Net cash provided (used) by investing activities	(180,865)	(874,663)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	255,849	-
Net cash provided (used) by financing activities	255,849	-
Increase (Decrease) in Cash and Cash Equivalents	564,050	(129,777)
Cash and Cash Equivalents - Beginning of Year	1,033,749	1,163,526
Cash and Cash Equivalents - End of Year	\$ 1,597,799	\$ 1,033,749
Cash as Reported on the Statement of Financial Position:		
Cash and cash equivalents	\$ 585,302	\$ 266,972
Restricted cash and cash equivalents	1,012,497	766,777
	\$ 1,597,799	\$ 1,033,749

See Notes to Financial Statements.

The Purple Rose Theatre Company

Notes to Financial Statements

1. Nature of Business and Significant Accounting Policies

Organization and 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.

Recently Adopted Accounting Standards

In May, 2014, the FASB amended its guidance related to revenue recognition. The amended guidance establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance, including industry-specific guidance. The amended guidance clarifies that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the amended guidance, an entity (1) identifies the contract(s) with a customer; (2) identifies the performance obligations in the contract; (3) determines the transaction price; (4) allocates the transaction price to the contract's performance obligations; and (5) recognizes revenue when the entity satisfies a performance obligation. The amended guidance applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Entities had the option of using either a full retrospective or modified retrospective approach to the amended guidance.

The Purple Rose Theatre Company, Inc. adopted the amended guidance, FASB Accounting Standards Update (ASU) No. 2014-19, *Revenue from Contracts with Customers*, and related amendments, using the modified retrospective approach on September 1, 2019, at which time it became effective for the Theatre. The guidance did not result in a significant change in the judgment or timing associated with the recognition of revenue. As a result of this analysis, the fiscal year ending August 31, 2019 has not been restated.

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 standards set by the Financial Accounting Standards Board (FASB). According to these professional standards, net assets and revenues, and gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and the changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

The Purple Rose Theatre Company

Notes to Financial Statements

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

Basis of Presentation (Continued)

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

Measure of Operations

The Statements of Activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis and based on estimates of time and effort.

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, 2020 and 2019, the uninsured balances were approximately \$1,345,000 and \$819,000, respectively.

Restricted cash and cash equivalents consist of monies received but not yet spent for purposes intended per the donors. Restricted cash and cash equivalents as of each year end were as follows:

	<u>2020</u>	<u>2019</u>
Facilities upgrade	\$ 28,459	\$ 37,832
World Premiere Fund	282,072	220,490
Endowment	697,918	493,287
Rehearsal space	4,048	6,468
Next season sponsorships	-	8,700
	<u> </u>	<u> </u>
Total restricted cash and cash equivalents	<u>\$ 1,012,497</u>	<u>\$ 766,777</u>

The Purple Rose Theatre Company
Notes to Financial Statements

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

Fair Value of Financial Instruments

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. Investments, including beneficial interest in assets held by community foundation, are reported under this framework (Note 2). Long-term pledge receivables have been adjusted to fair market value by discounting the value based upon estimated future cash flows (Note 3). The carrying value of cash and cash equivalents, restricted cash and cash equivalents, current receivables, inventory, prepaid expenses, and current liabilities approximates fair value because of the short term maturities of these instruments.

Receivables

The Theatre holds various types of receivables including 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 as revenue when pledged.

Pledges are recorded as revenues with donor restrictions in the year the pledge is received and released into net assets without donor restrictions as the pledge is paid unless restricted for a future specific use. Management reviews pledges receivable on a routine basis to determine collectability and has determined all pledges are collectable; thus no allowance for uncollectable pledges has been recorded. All long-term pledges receivable are due within one to five years (Note 3).

Inventory

Inventories are stated at cost (purchase price), determined by the first-in, first-out method. Inventory consists of various promotional items, such as shirts, hats and coffee mugs, as well as CDs and scripts.

Prepaid Expenses

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

Property and Equipment

Property and equipment acquisitions are accounted for at cost or if donated, are recorded at fair market value when received. Generally, the Theatre capitalizes all property and equipment with useful lives greater than one year. The Theatre does not have a policy for implying time restrictions on contributions of long-lived assets. 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 \$105,718 and \$97,907, respectively.

Investments

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. Fair value measurements of investments are disclosed in Note 2.

The Purple Rose Theatre Company
Notes to Financial Statements

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

Beneficial Interest in Assets Held by Community Foundation

The Theatre has transferred assets to a local community foundation, Community Foundation for Southeast Michigan, to set aside assets to provide for future investment income to assist in funding the operations on an ongoing basis. The assets are reported at fair value (see Note 2) and income net of fees including market value fluctuations, have been recorded annually. Variance power has been granted to the foundation; variance power focuses primarily on how income is distributed and how funds are to be handled if the Theatre should cease to exist. For 2020 and 2019, the Theatre has received approximately \$21,000 and \$13,500, respectively. The amounts held at year end as beneficial interest assets, at fair value, total \$304,998 and \$298,397, respectively.

Contributions and Other Support

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, unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support.

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 \$6,000 and \$26,000, for each year-end, respectively.

Income Tax Status

The Theatre is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Theatre is subject to taxation on "unrelated business income" resulting from the sale of inventory. Federal income tax expense was \$0 for both years.

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 upon this analysis, no amounts have been identified, or recorded, as uncertain tax positions. Federal returns are open for examination for three years.

Advertising

Advertising costs are expensed as incurred; the expense recognized for each year-end was approximately \$124,000 and \$163,000, respectively.

The Purple Rose Theatre Company

Notes to Financial Statements

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

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, had no impact on net income.

Subsequent Events

The Theatre has evaluated subsequent events through the date of the auditors' report, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

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. For the reported years, the Theatre had no assets valued using Level 2 fair value measurements.

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 and exchange-traded products (ETPs):* Valued at the market price as provided by brokerage
- *Beneficial interest in assets held at community foundation:* Valued at the fair value of the Theatre's share of the foundation's investment pool as of the measurement date

The Purple Rose Theatre Company
Notes to Financial Statements

2. Investments and Fair Value Measurements (Continued)

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:

	2020	2019
Certificates of deposit	\$ -	\$ 99,944
Mutual funds	927,866	729,298
Exchange-traded products	305,576	226,067
Total Level 1 fair value of investments	1,233,442	1,055,309
Beneficial interest in assets held at community foundation	304,998	298,397
Total Level 3 fair value of investments	304,998	298,397
Total investments at fair value	\$ 1,538,440	\$ 1,353,706

3. Receivables

The Theatre has received promises to give, some with multiple year terms. Due to the significance of the balance of long-term pledge receivables to the overall Statements of Financial Position, management has determined that the long-term pledge receivables balance should be adjusted to fair value. An average IRS Treasury yield rate effective for the applicable time period was determined to be a reasonable discount rate. Pledges receivable totaled \$437,625 and \$854,930 as of August 31, 2020 and 2019, respectively, net of a discount to fair market value (effective rate of 2.5%) of \$2,720 and \$9,822, respectively. The current year discount is reflected in contributions revenue, with donor restrictions, at a gain of \$7,102. These amounts are presented in the Statements of Financial Position as follows:

	2020	2019
Current pledges receivable (less than one year)	\$ 339,345	\$ 473,252
Other current receivables	-	733
Total current receivables	\$ 339,345	\$ 473,985
Long-term pledges receivable (one to five years)	\$ 101,000	\$ 391,500
Less: long-term unamortized discount	(2,720)	(9,822)
Net long-term portion of pledges receivable	\$ 98,280	\$ 381,678

The Purple Rose Theatre Company
Notes to Financial Statements

4. Line of Credit

The Theatre 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 4.75%. The credit line is secured by substantially all assets and matures March 17, 2021 with the expectation to renew. There was no balance on the line of credit as of either year end.

5. Long-term Debt

Long-term debt consists of a loan agreement with the Small Business Administration (SBA) (Lender Chelsea State Bank) through the Payroll Protection Program (PPP). Although the Organization expects forgiveness of the full amount of the PPP loan, it is currently reported as long-term debt and will be reported as such until the Organization has been legally released from the obligation or pays off the loan. Until the loan is forgiven, it currently matures April 14, 2022 with an interest rate of 1% and the first payment was originally due November 14, 2020, however payment has been deferred pending the application for forgiveness. The balance due within one year is \$141,097 with the remaining balance of \$114,752 due in fiscal year 2022.

6. Related Party Transactions

Related party transactions include Board member contributions and related pledge receivables, varying in amounts.

7. Leases

Rehearsal space lease expense was \$22,380 and \$22,080 for the years ended August 31, 2020 and 2019, respectively. The Theatre rents rehearsal space under a five-year operating lease dated February 1, 2017 and expiring January 1, 2022, with options to renew for two additional five-year terms. Future minimum rent payments required under this operating lease are estimated as \$22,080 for fiscal year 2021 and \$9,200 for fiscal year 2022.

The Theatre also rents a residential property for actor housing under a thirteen month operating lease dated April 1, 2020 and expiring April 30, 2021. Lease expense for this lease was approximately \$10,700 for each reported year. Future rent payments required under this operating lease are estimated at \$6,300 for fiscal year 2021.

Short-term operating leases for storage space totaled \$5,432 and \$3,880, respectively.

8. 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 30% of the total salaries incurred for each reported year.

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, 2020 and 2019, were approximately \$93,000 and \$124,000, respectively.

The Theatre maintains a SIMPLE Plan for eligible employees not covered by the above plan. The contributions are matching up to 3% of gross wages for calendar year 2020 and 2% of gross wages for calendar year 2019. Total SIMPLE contributions for the years ended August 31, 2020 and 2019, were approximately \$5,600 and \$10,900, respectively.

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9. Net Assets

Net assets with donor restrictions at each reported year end are restricted for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Play sponsorship for next season	\$ -	\$ 8,700
Comprehensive capital campaign	1,008,450	751,610
Rehearsal space	4,047	6,467
Pledges for future years	437,625	864,751
Endowment funds held at community foundation	<u>304,998</u>	<u>298,397</u>
Total net assets with donor restrictions	<u>\$ 1,755,120</u>	<u>\$ 1,929,925</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows:

	<u>2020</u>	<u>2019</u>
Expenditure for a specific purpose	\$ 259,372	\$ 98,938
Pledges received net of discount amortization	<u>549,286</u>	<u>958,552</u>
Total net assets released from restrictions	<u>\$ 808,658</u>	<u>\$ 1,057,490</u>

10. Concentrations

For fiscal year 2020, there were no concentrations related to contributions or other revenues. However, pledges receivable were concentrated in three pledges, representing approximately 75% of the ending balance at August 31, 2020.

For fiscal year 2019, there were no concentrations related to contributions or other revenues. However, pledges receivable were concentrated in two pledges, representing approximately 82% of the ending balance at August 31, 2019.

For labor concentrations, see Note 8.

11. Liquidity

The Theatre has \$941,355 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash and cash equivalents of \$585,302, receivables of \$339,345, inventory of \$5,163, and prepaid expenses of \$11,545. The inventory and prepaid expenses will be expended as used during the upcoming year. The receivables are subject to implied time restrictions but are expected to be collected within one year.

The financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date and amounts set aside for long-term investing. The restricted cash, although a current financial asset and expected to be spent within the next fiscal year, is not available for general use but is instead earmarked for specific purchases. See Cash and Cash Equivalents section of Note 1 for restriction detail.

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11. Liquidity (Continued)

As part of the Theatre's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. For increased income from its financial assets, the Theatre holds investments of \$1,538,440 which have been placed with local brokerage firms and a community foundation and from which annual distributions of revenues are expected. As described more fully in Note 4, the Theatre also maintains a line of credit in the amount of \$150,000, which is available to draw down upon in the event of an unanticipated liquidity need.

12. Coronavirus Pandemic

In March 2020, the World Health Organization categorized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. The COVID-19 pandemic has caused business disruption through mandated and voluntary closings of multiple businesses. The Theatre has canceled all fundraisers and shows since the start of the pandemic until further notice. The extent of the impact of COVID-19 on the Theatre's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees, donors and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Theatre's financial condition or results of operations is uncertain.

To mitigate the financial impacts of the COVID-19 pandemic, the Theatre has obtained an SBA loan under the CARES Act Paycheck Protection Program (see Note 5).

13. Risk Management

The Theatre is currently subject to certain claims against it related to prior employee compensation. The amount of liability from the claims, if any, cannot be determined with certainty, and thus, no liability has been accrued.