



WILLIS & JURASEK

CPAS AND CONSULTANTS

February 7, 2023

To the Board of Directors
The Purple Rose Theatre Company

We have audited the financial statements of The Purple Rose Theatre Company for the year ended August 31, 2022, and have issued our report thereon dated February 7, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated our responsibilities in our letter dated September 28, 2022. We performed the audit according to the planned scope and timing previously communicated to you in our discussions about planning matters. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Purple Rose Theatre Company are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended August 31, 2022. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive estimates affecting the financial statements were:

Management's estimate of lives and methods for allocating depreciation for fixed assets: We evaluated the key factors and assumptions used to calculate depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allocation of functional expenses: We evaluated the key factors and assumptions used to develop the allocation of expenses in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Management has determined that the effects of any uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 7, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Upcoming Reporting Changes

ASU No. 2016-02, *Leases*, is effective for the fiscal year beginning September 1, 2022. The updated standard impacts the recognition, measurement, and presentation of expenses and cash flows arising from capital and operating leases. The update also requires lessors to account for certain reimbursed costs as variable payments (revenue).

This information is intended solely for the use of the Board of Directors and management of The Purple Rose Theatre Company and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

The Purple Rose Theatre Company

Financial Statements
And Independent Auditors' Report

Years Ended August 31, 2022 and 2021

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WILLIS & JURASEK

CPAS AND CONSULTANTS

Independent Auditors' Report

Board of Directors
The Purple Rose Theatre Company
Chelsea, Michigan

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. In addition, we conducted our audit for the year ended August 31, 2022 in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Purple Rose Theatre Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Purple Rose Theatre Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Purple Rose Theatre Company's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards (under separate cover), as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 audit 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report (under separate cover) dated February 7, 2023, on our consideration of The Purple Rose Theatre Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Purple Rose Theatre Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Purple Rose Theatre Company's internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

February 7, 2023

The Purple Rose Theatre Company

Statements of Financial Position

August 31, 2022 and 2021

Assets

	2022	2021
Current Assets:		
Cash and cash equivalents	\$ 564,031	\$ 1,034,382
Restricted cash and cash equivalents	1,162,602	1,106,561
Accounts receivable	764	20,708
Pledges receivable - current	30,500	104,100
Inventory	3,641	4,822
Prepaid expenses	61,476	28,786
Total current assets	1,823,014	2,299,359
Property and Equipment:		
Land	100,000	100,000
Building and improvements	2,840,046	2,824,728
Furniture, fixtures and office equipment	89,355	82,196
Theatre and shop equipment	239,569	178,869
Vehicles	38,117	38,117
	3,307,087	3,223,910
Less: accumulated depreciation	1,547,269	1,437,094
Net property and equipment	1,759,818	1,786,816
Other Assets:		
Investments	1,304,870	1,543,372
Pledges receivable - long-term, net of unamortized discount	19,506	48,773
Beneficial interest in assets held at community foundation	312,709	364,775
Total other assets	1,637,085	1,956,920
	\$ 5,219,917	\$ 6,043,095

Liabilities and Net Assets

Current Liabilities:		
Accounts payable	\$ 60,311	\$ 9,949
Accrued expenses	6,205	7,718
Deferred revenue	291,225	687,764
Total current liabilities	357,741	705,431
Net Assets:		
Without donor restrictions	3,286,542	3,713,456
With donor restrictions	1,575,634	1,624,208
Total net assets	4,862,176	5,337,664
	\$ 5,219,917	\$ 6,043,095

See Notes to Financial Statements.

The Purple Rose Theatre Company

Statements of Activities

Years Ended August 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:						
Public Support:						
Contributions and benefit income	\$ 628,518	\$ 204,184	\$ 832,702	\$ 253,362	\$ 319,370	\$ 572,732
In-kind contributions	66,086	-	66,086	20,859	-	20,859
Net assets released from restrictions	252,758	(252,758)	-	450,282	(450,282)	-
Total public support	947,362	(48,574)	898,788	724,503	(130,912)	593,591
Revenue:						
Ticket and program	508,593	-	508,593	-	-	-
Miscellaneous	5,296	-	5,296	3,432	-	3,432
Total revenue	513,889	-	513,889	3,432	-	3,432
Total public support and revenue	1,461,251	(48,574)	1,412,677	727,935	(130,912)	597,023
Expenses:						
Program Services:						
Production	1,665,317	-	1,665,317	481,002	-	481,002
Education outreach	122,567	-	122,567	82,454	-	82,454
Total program services	1,787,884	-	1,787,884	563,456	-	563,456
Support Services:						
General and administrative	313,671	-	313,671	295,778	-	295,778
Development and special events	363,911	-	363,911	152,775	-	152,775
Total support services	677,582	-	677,582	448,553	-	448,553
Total expenses	2,465,465	-	2,465,465	1,012,009	-	1,012,009
Changes in Net Assets from Operating Activities	(1,004,214)	(48,574)	(1,052,788)	(284,074)	(130,912)	(414,986)
Other Income (Expense):						
Other income, SVOG and PPP grant income	852,778	-	852,778	375,394	-	375,394
Gain/(loss) on disposals of assets	-	-	-	(6,208)	-	(6,208)
Investment income	(275,477)	-	(275,477)	342,982	-	342,982
Total other income (expense)	577,301	-	577,301	712,168	-	712,168
Changes in Net Assets	(426,913)	(48,574)	(475,487)	428,094	(130,912)	297,182
Net Assets - Beginning of Year	3,713,456	1,624,208	5,337,664	3,285,362	1,755,120	5,040,482
Net Assets - End of Year	\$ 3,286,542	\$ 1,575,634	\$ 4,862,176	\$ 3,713,456	\$ 1,624,208	\$ 5,337,664

See Notes to Financial Statements.

The Purple Rose Theatre Company
Statement of Functional Expenses
Year Ended August 31, 2022

	Program Services		Supporting Services		2022 Total
	Production	Education Outreach	General & Administrative	Development & Special Events	
Salaries and wages	\$ 661,145	\$ 88,987	\$ 141,432	\$ 195,662	\$ 1,087,226
Pension plan	117,761	201	1,385	1,235	120,582
Other benefits	53,853	3,133	21,629	19,299	97,914
Payroll taxes and other employee costs	71,860	4,181	28,862	25,752	130,655
Playwrights and royalties	82,578	-	-	-	82,578
Direct production costs, non-personnel	285,347	-	-	15,018	300,365
Professional fees	-	-	39,923	-	39,923
Office expenses	10,695	517	3,128	3,902	18,242
Printing and postage	3,962	813	1,907	842	7,524
Rent	25,442	630	1,512	1,916	29,500
Utilities	20,539	685	8,216	4,792	34,232
Telephone	13,009	650	4,120	3,903	21,682
Maintenance, repairs, and equipment rentals	147,470	2,907	23,549	11,564	185,490
Marketing, general development, and special events	66,951	-	-	68,846	135,797
Auto and travel	21,884	145	1,597	436	24,062
Insurance	6,718	1,244	2,986	1,493	12,441
Depreciation	60,256	17,854	26,781	6,695	111,586
Other expenses	15,847	620	6,644	2,556	25,667
Total	\$ 1,665,317	\$ 122,567	\$ 313,671	\$ 363,911	\$ 2,465,465

See Notes to Financial Statements.

The Purple Rose Theatre Company
Statement of Functional Expenses
Year Ended August 31, 2021

	Program Services		Supporting Services		2021 Total
	Production	Education Outreach	General & Administrative	Development & Special Events	
Salaries and wages	\$ 170,035	\$ 41,700	\$ 66,276	\$ 91,689	\$ 369,700
Pension plan	12,319	707	1,123	1,553	15,702
Other benefits	28,123	7,156	11,373	15,733	62,385
Payroll taxes	13,467	3,426	5,446	7,534	29,873
Direct production costs, non-personnel	107,047	-	-	4,351	111,398
Legal fees	-	-	145,571	-	145,571
Professional fees	-	-	16,420	-	16,420
Office expenses	3,233	1,395	2,897	1,406	8,931
Printing and postage	2,740	553	1,302	587	5,182
Rent	24,381	631	1,513	1,861	28,386
Utilities	10,981	3,254	4,881	1,220	20,336
Telephone	10,853	2,010	4,823	2,412	20,098
Maintenance, repairs, and equipment rentals	12,110	1,956	3,022	733	17,821
Marketing, general development, and special events	14,604	-	-	15,086	29,690
Auto and travel	1,636	485	727	182	3,030
Insurance	5,861	1,085	2,605	1,302	10,853
Depreciation	58,170	17,236	25,854	6,463	107,723
Other expenses	5,442	860	1,945	663	8,910
Total	\$ 481,002	\$ 82,454	\$ 295,778	\$ 152,775	\$ 1,012,009

See Notes to Financial Statements.

The Purple Rose Theatre Company

Statements of Cash Flows
Years Ended August 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities:		
Change in net assets	\$ (475,487)	\$ 297,182
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	111,586	107,723
Pledge receivables discount to net present value	1,233	993
Loss (gain) on asset disposal	-	6,208
Realized (gain) loss on sale of investments	(191,014)	(7,147)
Unrealized (gain) loss on investments	494,897	(308,641)
In-kind contributions	(66,086)	(20,859)
In-kind expenses	66,086	20,859
PPP loan forgiveness	-	(255,849)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	19,944	(20,708)
Pledges receivable	101,634	283,759
Inventory	1,181	341
Prepaid expenses	(32,690)	(17,241)
Accounts payable	50,362	1,804
Accrued expenses	(1,513)	(1,395)
Deferred revenue	(396,539)	528,570
Total adjustments	159,081	318,417
Net cash provided (used) by operating activities	(316,406)	615,599
Cash Flows From Investing Activities:		
Purchase of fixed assets	(84,588)	(18,535)
Sale of investments	604,416	33,124
Purchase of investments	(631,613)	(93,767)
Distributions from beneficial interest in community foundation	13,881	6,723
Net cash provided (used) by investing activities	(97,904)	(72,455)
Increase (Decrease) in Cash and Cash Equivalents	(414,310)	543,144
Cash and Cash Equivalents - Beginning of Year	2,140,943	1,597,799
Cash and Cash Equivalents - End of Year	\$ 1,726,632	\$ 2,140,943
Cash as Reported on the Statement of Financial Position:		
Cash and cash equivalents	\$ 564,031	\$ 1,034,382
Restricted cash and cash equivalents	1,162,602	1,106,561
	\$ 1,726,633	\$ 2,140,943

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.

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.

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.

The Purple Rose Theatre Company

Notes to Financial Statements

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

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, 2022 and 2021, the uninsured balances were approximately \$1,500,000 and \$1,900,000, respectively.

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

	<u>2022</u>	<u>2021</u>
Facilities upgrade	\$ 151,078	\$ 96,784
World Premiere Fund	342,072	332,072
Endowment	669,452	667,918
Rehearsal space	-	4,048
Diversity & Inclusion Initiative	-	5,739
	<u>\$ 1,162,602</u>	<u>\$ 1,106,561</u>

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).

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 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 \$111,586 and \$107,723, 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.

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 2022 and 2021, the Theatre has received approximately \$14,000 and \$7,000, respectively. The amounts held at year end as beneficial interest assets, at fair value, total \$312,709 and \$364,775, 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.

The Purple Rose Theatre Company
Notes to Financial Statements

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

Contributed Goods and Services

During the year, contributed goods and services meeting the requirements for recognition in the financial statements were for several types of expenses including props, set dressings, benefit expenses, and various professional services. These have been recorded at the fair value of the donations received. Total value of donated goods and services included in expenses was approximately \$66,000 and \$21,000, 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 \$70,000 and \$15,000, 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, 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.

The Purple Rose Theatre Company
Notes to Financial Statements

2. Investments and Fair Value Measurements (Continued)

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 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:

	2022	2021
Certificates of deposit/cash equivalents	\$ 7,246	\$ 11,087
Mutual funds	613,182	1,147,140
Exchange-traded products	684,442	385,145
Total Level 1 fair value of investments	1,304,870	1,543,372
Beneficial interest in assets held at community foundation	312,709	364,775
Total Level 3 fair value of investments	312,709	364,775
Total investments at fair value	\$ 1,617,579	\$ 1,908,147

The Purple Rose Theatre Company

Notes to Financial Statements

3. Receivables

The Theatre has received promises to give, some with multiple year terms. 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 \$50,006 and \$152,873 as of August 31, 2022 and 2021, respectively, net of a discount to fair market value (effective rate of 2.5%) of \$494 and \$1,727, respectively. The current year discount is reflected in contributions revenue, with donor restrictions, at a positive change of \$1,233. These amounts are presented in the Statements of Financial Position as follows:

	<u>2022</u>	<u>2021</u>
Current pledges receivable (less than one year)	\$ 30,500	\$ 104,100
Other current receivables	764	20,708
Total current receivables	<u>\$ 31,264</u>	<u>\$ 124,808</u>
Long-term pledges receivable (one to five years)	\$ 20,000	\$ 50,500
Less: long-term unamortized discount	<u>(494)</u>	<u>(1,727)</u>
Net long-term portion of pledges receivable	<u>\$ 19,506</u>	<u>\$ 48,773</u>

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 June 17, 2023 with the expectation to renew. There was no balance on the line of credit as of either year end.

5. Long-term Debt

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted and a key piece of the CARES Act is the Payroll Protection Program (PPP). The program was created by the CARES Act to provide small businesses with cash flow assistance through federally guaranteed loans administered through the Small Business Administration (SBA). One major component of these PPP loans was the ability to have a substantial portion of the principal and accrued interest forgiven if the loan was used per the agreement stipulations. On April 14, 2020, the Theatre entered into a loan agreement for \$255,849 with the Small Business Administration (SBA) (lender Chelsea State Bank) through the Payroll Protection Program (PPP).

In accordance with FASB ASC 450-30, the Theatre has opted to recognize the PPP loan under the model for gain contingency recognition. Under this model, the cash received as a PPP loan was initially treated as a liability. The proceeds from the loan remained recorded as a liability until the grant proceeds were realizable, which was when the loan was forgiven, in December, 2020. Accordingly, the grant proceeds have been reported as other income in the Statements of Activities for the year ended August 31, 2021.

6. Related Party Transactions

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

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Notes to Financial Statements

7. Leases

Rehearsal space lease expense was \$23,200 and \$22,080 for the years ended August 31, 2022 and 2021, respectively. The Theatre rents rehearsal space under a five-year operating lease dated February 1, 2017 and expiring January 1, 2022 with two optional five-year extensions through January, 2032. Future minimum rent payments required under this operating lease are estimated as follows:

<u>August 31,</u>	
2023	\$ 24,000
2024	24,000
2025	24,000
2026	24,000
2027	25,750
Thereafter	119,250

The Theatre also rents a residential property for actor housing under a twelve-month operating lease dated May 1, 2022 and expiring April 30, 2023 which was renewed through April 30, 2024. Lease expense for this property was approximately \$10,700 for each reported year. Future rent payments required under these operating leases are estimated at \$11,800 for fiscal year 2023 and \$8,800 for fiscal year 2024.

Short-term operating leases for storage space totaled \$6,300 and \$6,305, 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 represents approximately 28% and 2%, respectively, 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, 2022 and 2021, were approximately \$114,000 and \$10,000, 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 for calendar years 2022 and 2021. Total SIMPLE contributions for the years ended August 31, 2022 and 2021, were approximately \$6,300 for each reported year.

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Notes to Financial Statements

9. Net Assets

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

	<u>2022</u>	<u>2021</u>
Play sponsorship for next season	\$ 50,250	\$ -
Comprehensive capital campaign	1,162,668	1,102,513
Chelsea District Library readings	-	-
Rehearsal space	-	4,047
Pledges for future years	50,007	152,873
Endowment funds held at community foundation	<u>312,709</u>	<u>364,775</u>
Total net assets with donor restrictions	<u>\$ 1,575,634</u>	<u>\$ 1,624,208</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>2022</u>	<u>2021</u>
Expenditure for a specific purpose	\$ 149,891	\$ 140,937
Pledges received net of discount amortization	<u>102,867</u>	<u>309,345</u>
Total net assets released from restrictions	<u>\$ 252,758</u>	<u>\$ 450,282</u>

10. Concentrations

For fiscal year 2022, one major source of income was the Shuttered Venue Operators Grant, see Note 12. Contributions were concentrated in two donors totaling approximately 23% of total donations. Pledges receivable were concentrated in three pledges, representing the whole balance.

For fiscal year 2021, the one major source of income was the PPP grant, see Note 5. Pledges receivable were concentrated in four pledges, representing approximately 78% of the ending balance at August 31, 2021.

For labor concentrations, see Note 8.

11. Liquidity

The Theatre has \$660,412 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 \$564,031, receivables of \$31,264, inventory of \$3,641, and prepaid expenses of \$61,476. 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 the Cash and Cash Equivalents section of Note 1 for restricted cash details.

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Notes to Financial Statements

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 \$1,617,579 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. Risk Management

Government Assistance

To mitigate the financial impacts of the COVID-19 pandemic, the Theatre has obtained two federally funded grants - an SBA loan under the CARES Act Paycheck Protection Program (see Note 5) and a Shuttered Venue Operators Grant (SVOG). The SVOG totals \$972,323 and runs through January 8, 2023. \$119,545 of the grant was used in the 2021 fiscal year and recognized as other income in the Statements of Activities. The remaining balance of \$852,778 was spent in the current year and also reported as other income in the Statements of Activities.

Other Risk Management

The Theatre is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets, errors and omissions, employee or patron injuries, natural disasters, and other unexpected losses. The Theatre has purchased commercial insurance to cover such losses. Claims outstanding, if any, are expected to be fully covered by insurance and thus, no provision has been made in the financial statements related to any such claims.