



San Diego Repertory Theatre

FINANCIAL STATEMENTS

JUNE 30, 2016



Leaf & Cole, LLP
Certified Public Accountants

SAN DIEGO REPERTORY THEATRE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2016

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
San Diego Repertory Theatre, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Repertory Theatre, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Repertory Theatre, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited San Diego Repertory Theatre, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of certain operations for the year ended June 30, 2016 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Leaf & Cole LLP

San Diego, California,
October 13, 2016

SAN DIEGO REPERTORY THEATRE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

ASSETS

	<u>2016</u>	<u>2015</u>
<u>Current Assets:</u> (Notes 1 and 3)		
Cash and cash equivalents	\$ 52,066	\$ 125,471
Accounts receivable	62,206	25,012
Contributions receivable	282,340	380,783
Prepaid expenses	260,458	156,206
Deposits	4,230	4,730
Total Current Assets	661,300	692,202
<u>Noncurrent Assets:</u> (Notes 1, 2, 3, 5 and 6)		
Contributions receivable	185,610	15,000
Property and equipment, net	95,581	121,932
Beneficial interest in endowment funds	13,128	13,505
Total Noncurrent Assets	294,319	150,437
TOTAL ASSETS	\$ 955,619	\$ 842,639

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 1, 7 and 8)		
Accounts payable	\$ 117,154	\$ 127,527
Accrued expenses	41,530	58,870
Deferred revenue	530,104	288,485
Loan payable	50,000	-
Lines-of-credit payable, current portion	47,104	118,104
Total Current Liabilities	785,892	592,986
<u>Noncurrent Liabilities:</u> (Notes 1 and 7)		
Deferred revenue	18,240	18,240
Lines-of-credit payable, noncurrent	499,921	200,000
Total Noncurrent Liabilities	518,161	218,240
Total Liabilities	1,304,053	811,226
<u>Commitments</u> (Note 11)		
<u>Net Assets (Deficit):</u> (Notes 1, 9 and 10)		
Unrestricted	(1,099,905)	(87,092)
Temporarily restricted	738,343	105,000
Permanently restricted	13,128	13,505
Total Net Assets (Deficit)	(348,434)	31,413
TOTAL LIABILITIES AND NET ASSETS	\$ 955,619	\$ 842,639

The accompanying notes are an integral part of the financial statements.

SAN DIEGO REPERTORY THEATRE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues From Operations:					
Admissions	\$ 1,010,927	\$ -	\$ -	\$ 1,010,927	\$ 895,130
Theatre management income	360,347	-	-	360,347	271,438
Management fees	180,000	-	-	180,000	180,000
Ticket handling fees	91,243	-	-	91,243	54,091
Concessions	71,394	-	-	71,394	58,921
Enhancement/Co-production income	9,854	-	-	9,854	84,917
Miscellaneous	2,350	-	-	2,350	2,203
Investment income (loss)	30	-	(377)	(347)	150
Total Revenues From Operations	<u>1,726,145</u>	<u>-</u>	<u>(377)</u>	<u>1,725,768</u>	<u>1,546,850</u>
Expenses of Operations:					
Production, artistic, and education	2,122,286	-	-	2,122,286	1,989,391
Marketing and subscription	1,134,606	-	-	1,134,606	624,470
General and administrative	764,113	-	-	764,113	664,760
Concessions	33,315	-	-	33,315	34,499
Total Expenses of Operations	<u>4,054,320</u>	<u>-</u>	<u>-</u>	<u>4,054,320</u>	<u>3,313,120</u>
(Deficiency) From Operations	<u>(2,328,175)</u>	<u>-</u>	<u>(377)</u>	<u>(2,328,552)</u>	<u>(1,766,270)</u>
Support:					
Contributions	914,417	723,343	-	1,637,760	1,535,464
In-kind contributions	398,907	-	-	398,907	149,176
Government grants	206,845	-	-	206,845	191,541
Special event	96,505	-	-	96,505	-
Change in value of charitable remainder unitrust	-	-	-	-	5,544
Net assets released from restrictions	90,000	(90,000)	-	-	-
Total Support	<u>1,706,674</u>	<u>633,343</u>	<u>-</u>	<u>2,340,017</u>	<u>1,881,725</u>
Expenses of Support:					
Fundraising	391,312	-	-	391,312	232,156
Total Expenses of Support	<u>391,312</u>	<u>-</u>	<u>-</u>	<u>391,312</u>	<u>232,156</u>
Increase From Support	<u>1,315,362</u>	<u>633,343</u>	<u>-</u>	<u>1,948,705</u>	<u>1,649,569</u>
Change in Net Assets	(1,012,813)	633,343	(377)	(379,847)	(116,701)
Net Assets (Deficit) at Beginning of Year	<u>(87,092)</u>	<u>105,000</u>	<u>13,505</u>	<u>31,413</u>	<u>148,114</u>
NET ASSETS (DEFICIT)					
AT END OF YEAR	<u>\$ (1,099,905)</u>	<u>\$ 738,343</u>	<u>\$ 13,128</u>	<u>\$ (348,434)</u>	<u>\$ 31,413</u>

The accompanying notes are an integral part of the financial statements.

SAN DIEGO REPERTORY THEATRE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (379,847)	\$ (116,701)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	30,788	34,508
Change in value of charitable remainder unitrust	-	(5,544)
Permanently restricted investment loss (income)	377	(28)
(Increase) Decrease in:		
Accounts receivable	(37,194)	(6,368)
Contributions receivable	(72,167)	(239,973)
Prepaid expenses	(104,252)	(72,175)
Deposits	500	9,784
Increase (Decrease) in:		
Accounts payable	(10,373)	65,874
Accrued expenses	(17,340)	(1,139)
Deferred revenue	241,619	75,654
Net Cash Used in Operating Activities	<u>(347,889)</u>	<u>(256,108)</u>
<u>Cash Flows From Investing Activities:</u>		
Charitable remainder unitrust distribution	-	66,113
Purchase of property and equipment	(4,437)	(28,871)
Change in beneficial interest in endowment funds	377	(28)
Net Cash (Used in) Provided by Investing Activities	<u>(4,060)</u>	<u>37,214</u>
<u>Cash Flows From Financing Activities:</u>		
Payments on lines-of-credit payable	(775,000)	(200,000)
Borrowings on lines-of-credit payable	1,003,921	435,104
Payments on loan payable	(350,000)	-
Borrowings on loan payable	400,000	-
Permanently restricted investment (loss) income	(377)	28
Net Cash Provided by Financing Activities	<u>278,544</u>	<u>235,132</u>
(Decrease) Increase in Cash and Cash Equivalents	(73,405)	16,238
Cash and Cash Equivalents at Beginning of Year	<u>125,471</u>	<u>109,233</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 52,066</u></u>	<u><u>\$ 125,471</u></u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u><u>\$ 20,316</u></u>	<u><u>\$ 9,569</u></u>

The accompanying notes are an integral part of the financial statements.

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies:

Organization

Founded in 1976, San Diego Repertory Theatre (the “Theatre”) produces intimate, exotic, provocative theatre. We promote a more inclusive community through vivid works that nourish progressive political and social values and celebrate the multiple voices of our region. San Diego Repertory Theatre feeds the curious soul. To achieve our mission we commission and produce bold new works by writers and composers of unique vision that speaks of and to the communities surrounding our unique border city. As the “Cultural Town Hall” of San Diego, we are a multicultural and multidisciplinary performing and visual arts center. Making theatre for and with our neighbors is an act of citizenship that promotes a more tolerant, wiser, progressive and inclusive community.

Our activities include: (1) A six play subscription season of world premieres, re-imagined classics, and contemporary pieces; (2) Residencies and commissions from a myriad of disciplines, cultures, and countries leading to the creation of new works; (3) Two multi-cultural festivals: Kuumba Fest, an artistic collaboration of African American culture and history, and The Lipinsky San Diego Jewish Arts Festival, featuring plays, concerts, and exhibitions by Jewish artists from around the world; (4) The Calafia Initiative, a bi-national, cross-disciplinary effort to create new regionally voiced works about the past, present, and future of the Californias, rooted in artistic and community partnerships; (5) Manager of the Lyceum theatre complex, where we co-produce and support events of local artistic organizations; (6) Arts Education Initiative includes internships, fellowships, engagement events and Project Discovery student matinees (7 -12 Arts Education); (7) Mutually beneficial partnerships with diverse community organizations which foster audience development.

Significant Accounting Policies

Method of Accounting

The financial statements of the Theatre have been prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Theatre and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Theatre. The income from these assets is available for either general operations or specific programs as specified by the donor.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

Estimates

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

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

The Theatre's statement of financial position includes the following financial instrument that is required to be measured at fair value on a recurring basis:

- Beneficial interest in endowment funds held at San Diego Foundation is considered a Level 3 asset and is reported at the fair value of the underlying assets as reported by San Diego Foundation (Note 6).

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts receivable and contributions receivable are fully collectible; therefore, no allowance for doubtful accounts receivable and contributions receivable was recorded at June 30, 2016 and 2015.

Capitalization and Depreciation

The Theatre capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Theatre reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Theatre reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Leasehold improvements	10 years
Office furniture and equipment	3 - 5 years
Theatre furniture and equipment	5 - 7 years

Depreciation totaled \$30,788 and \$34,508 for the years ended June 30, 2016 and 2015, respectively.

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation (Continued)

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

The cost of constructed sets, costumes, and other properties are expensed in the period of the related production. Once a production is completed, the intention of the Theatre is to use items in future productions or rent them to other theatres; however, there is no certainty of future recovery of such costs.

Compensated Absences

Accumulated unpaid vacation totaling \$36,768 and \$54,706 at June 30, 2016 and 2015, respectively, are accrued when incurred and included in accrued expenses.

Revenue and Expense Recognition

Revenues from ticket sales and expenses directly associated with future performances are deferred until the fiscal year in which the performances occur. Prepaid program expenses totaled \$250,087 and \$146,499 at June 30, 2016 and 2015, respectively, and are included in prepaid expenses. Deferred revenue from advance ticket sales totaled \$530,103 and \$280,743 at June 30, 2016 and 2015, respectively.

Income received in advance for facility rental is deferred and recognized in the period in which the facility rental occurs. Deferred revenue for facility rentals totaled \$0- and \$7,742 at June 30, 2016 and 2015, respectively.

The Theatre received a credit for a portion of the facility lease costs which has been recorded as deferred revenue. In accordance with the lease agreement, the Theatre is liable to repay the credit if the lease is terminated before the five year term is complete. Noncurrent deferred revenue totaled \$18,240 at June 30, 2016 and 2015.

Contributions are recognized when the donor makes a promise to give in writing to the Theatre that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily restricted net assets. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Donated Services and Support

The Theatre utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donated services totaling \$398,907 and \$149,176 for the years ended June 30, 2016 and 2015, respectively, are included in in-kind contributions in the statement of activities.

Allocated Expenses

The Theatre allocates its expenses on a functional basis among its program and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Theatre's management.

Income Taxes

The Theatre is a nonprofit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Theatre is not a private foundation.

The Theatre's Return of Organization Exempt from Income Tax for the years ended June 30, 2016, 2015, 2014 and 2013 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns are filed.

Concentrations

Credit Risk

The Theatre maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Theatre has not experienced any losses in such accounts. The Theatre believes it is not exposed to any significant credit risk on cash and cash equivalents.

Support

The Managing Director has donated his services with a fair value totaling \$122,500 and \$119,000 for the years ended June 30, 2016 and 2015, respectively.

In addition, a donor has contributed \$132,500 and \$708,599 to the Theatre for the years ended June 30, 2016 and 2015, respectively. The contributions represented approximately 6% and 38% of support for the years ended June 30, 2016 and 2015, respectively.

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Theatre considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

Comparative Totals for June 30, 2015

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Theatre's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, the Theatre has evaluated events and transactions for potential recognition or disclosure through October 13, 2016, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements:

The following table summarizes assets measured at fair value on a recurring basis by classification within the fair value hierarchy at June 30:

	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
Beneficial interest in endowment funds (Note 6)	-	-	\$ 13,128	\$ 13,128
	\$ -	\$ -	\$ 13,128	\$ 13,128
	2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2015
Beneficial interest in endowment funds (Note 6)	-	-	\$ 13,505	\$ 13,505
	\$ -	\$ -	\$ 13,505	\$ 13,505

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 2 - Fair Value Measurements (Continued):

The reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are included in the Notes as indicated above.

The following table represents the Theatre's Level 3 financial instrument, the valuation techniques used to measure the fair value of the financial instrument, and the significant unobservable inputs and the range of values for those inputs for the years ended June 30:

		2016		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 13,128	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A
		2015		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 13,505	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A

Note 3 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Current:		
Receivables due in less than one year	\$ <u>282,340</u>	\$ <u>380,783</u>
Noncurrent:		
Receivables due in one to five years	198,667	15,000
Less: Discounts to present value	<u>(13,057)</u>	<u>-</u>
Total Noncurrent	<u>185,610</u>	<u>15,000</u>
Total Contributions Receivable, Net	<u>\$ 467,950</u>	<u>\$ 395,783</u>

The Theatre has received conditional pledges with balances totaling \$200,000 at June 30, 2016. Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. The payments received on conditional pledges are recorded as contribution revenue when they are received.

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 4 - Charitable Remainder Unitrust:

The Theatre was named as the beneficiary of a charitable remainder unitrust (the "Trust"). The Trust was established and funded by the donor and provided for a distribution annually to the donor during his lifetime. Upon the death of the donor, the remaining value of the Trust was distributed to the Theatre in September 2014. The charitable remainder unitrust amount was discounted to the present value of remainder interest using a discount rate of 4% at June 30, 2014.

The activity of the charitable remainder unitrust was reported as temporarily restricted net assets and consisted of the following for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Balance at Beginning of Year	\$ -	\$ 60,569
Change in discount and fair value	-	5,544
Distribution	-	(66,113)
Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>

Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 104,350	\$ 104,350
Office furniture and equipment	103,693	103,693
Theatre furniture and equipment	38,818	34,381
Subtotal	<u>246,861</u>	<u>242,424</u>
Less: Accumulated depreciation	<u>(151,280)</u>	<u>(120,492)</u>
Property and Equipment, Net	<u>\$ 95,581</u>	<u>\$ 121,932</u>

Note 6 - Beneficial Interest in Endowment Funds:

The Theatre has a beneficial interest in endowment funds held at San Diego Foundation, which is classified as permanently restricted for these investments that must be maintained in perpetuity. The beneficial interest in endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of 26% domestic equities, 28% international equities, 16% alternative investments, 17% fixed income, 8% real estate, 4% commodities and 1% cash and cash equivalents.

The activity in the beneficial interest in endowment funds held at San Diego Foundation consisted of the following for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Balance at Beginning of Year	\$ 13,505	\$ 13,477
Change in fair value	<u>(377)</u>	<u>28</u>
Balance at End of Year	<u>\$ 13,128</u>	<u>\$ 13,505</u>

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 7 - Lines-of-Credit:

The Theatre has a line-of-credit with Banner Bank in the amount of \$187,500. The line-of-credit provides for interest at the Wall Street Journal prime rate plus 1% but not less than 5% (5% at June 30, 2016). The line-of-credit is due October 15, 2016. The line-of-credit is secured by the personal guarantees of the Managing Director and a member of the Board of Directors. The Theatre is required to maintain a \$27,714 deposit for the Theatre's AEA Bond, of which a portion of the line-of-credit is set aside for this purpose. Outstanding advances under the line-of-credit totaled \$47,104 and \$118,104 at June 30, 2016 and 2015, respectively.

The Theatre has a line-of-credit with Northern Trust Bank in the amount of \$500,000. The line-of-credit provides for interest at the bank's prime rate plus 2.5% (2.91% at June 30, 2016). The line-of-credit is due September 28, 2018. The line-of-credit is secured by the personal guarantees of the Managing Director and a member of the Board of Directors. The outstanding advances under the line-of-credit totaled \$499,921 and \$-0- at June 30, 2016 and 2015, respectively.

The Theatre had a line-of-credit with Northern Trust Bank in the amount of \$200,000, which was increased to \$500,000 during the year ended June 30, 2016. The line-of-credit provided for interest at the London Interbank Offered Rate plus 2.50% but not less than 1% (3% at June 30, 2015). The line-of-credit was secured by the personal guarantees of the Managing Director and a member of the Board of Directors. The line of credit was repaid in 2016 and not renewed. The outstanding advances under the line-of-credit totaled \$-0- and \$200,000 at June 30, 2016 and 2015, respectively.

Note 8 - Loan Payable:

The Theatre has a promissory note, which was originated on August 29, 2015, held by its Managing Director in the original amount of \$400,000. The loan bears interest at a rate of \$1 per year and was due on June 30, 2016, with the option to extend by the holder on a month-to-month basis. The outstanding balance on the promissory note was \$50,000 and \$-0- at June 30, 2016 and 2015, respectively.

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of contributions received with time or purpose restrictions and consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Contributions with time restrictions	\$ 359,343	\$ 55,000
Contributions with purpose restrictions	379,000	50,000
Total Temporarily Restricted Net Assets	<u>\$ 738,343</u>	<u>\$ 105,000</u>

Net assets totaling \$90,000 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the year ended June 30, 2016.

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

Note 10 - Endowment Net Assets:

The endowment funds of the Theatre are held by San Diego Foundation (the “Foundation”). The Foundation manages the funds in accordance with UPMIFA. The Foundation’s objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require the Theatre to retain as a fund of perpetual duration. The Theatre classifies permanently restricted net assets held by the Foundation as:

- The original value of gifts donated to the fund
- The original value of Theatre funds transferred to the fund
- The original value of subsequent gifts donated to the fund
- Investment income and realized and unrealized gains and losses on investments
- Distributions from the fund in accordance with the spending policy

The Foundation has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
- Comply with applicable laws

The Foundation’s endowment funds are invested in debt and other securities that are structured to satisfy its long-term rate-of-return objectives. To provide diversification to moderate risk, the investments are divided into carefully defined asset classes. Funding available for each asset classification is invested by professional money managers hired by the Foundation through a competitive process. The investment performance of each money manager is monitored by an independent consultant hired by the Foundation.

The Foundation’s spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all contributions made to the Endowment Principal, then distributions will be limited to interest and dividends received. The Foundation’s endowment funds distributions are approximately 2.5% of the endowment principal. The Theatre has elected not to take distributions for the years ended June 30, 2016 and 2015.

Endowment composition by type of fund and changes in endowment net assets as of and for the years ended June 30:

	Permanently Restricted
Endowment Net Assets at June 30, 2014	\$ 13,477
Change in fair value	28
Endowment Net Assets at June 30, 2015	13,505
Change in fair value	(377)
Endowment Net Assets at June 30, 2016	\$ 13,128

SAN DIEGO REPERTORY THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 11 - Commitments:

Pension Plan

The Theatre participates in an actors' pension and health trust fund. Contributions to the pension trust are 8% of gross payments to actors, and 2.5% of gross payments to interns. Contributions to the pension and health trust fund totaled \$59,313 and \$41,087 for the years ended June 30, 2016 and 2015, respectively.

Lease

The Theatre has a lease agreement for storage space through August 2016, and a 60-month lease agreement for rehearsal space through September 2017. Rent expense totaled \$97,017 and \$93,676 for the years ended June 30, 2016 and 2015, respectively.

The following is a schedule of future minimum lease payments under the leases:

Years Ended June 30		
2017	\$	83,229
2018		20,169
Total	\$	103,398

Management Fee and Production Agreement

The Theatre has an agreement with Horton Plaza Theatres Foundation (Horton) which expires December 31, 2019. The agreement is subject to all of the terms, covenants, and conditions of a master lease between the Redevelopment Agency of the City of San Diego and Horton. In accordance with the agreement, the Theatre is required to annually produce or present a minimum of 240 theatrical presentations, without a lapse of presentations during any 45-day period. In connection with the agreement, the Theatre has management, operational, and production responsibilities for the entire theatre complex. The Theatre received a \$180,000 management fee for these services for the years ended June 30, 2016 and 2015. The Theatre is also entitled to receive a minimum of \$70,000 per year to be used for a production assistance fund (PAF). The PAF funds shall be used to pay a portion of co-production fees for PAF assistance recipients selected in accordance with the agreement. The Theatre received \$69,944 and \$69,986 in PAF funds for the years ended June 30, 2016 and 2015, respectively, which has been included in the statement of activities.

**SAN DIEGO REPERTORY THEATRE, INC.
SUPPLEMENTARY SCHEDULE OF CERTAIN OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2016**

Revenues:

Ticket sales	\$ 743,748
Subscription sales	267,215
Theatre management income	257,673
Concessions	62,654
Equipment rental fees	11,861
Other revenue	2,722,634
Total Revenues	<u>4,065,785</u>

Expenses

Front of house salaries	93,087
Box office salaries	157,681
Utilities	165,528
Repair and maintenance of premises	9,479
Ticket processing	34,369
Parking	40,693
Insurance	14,918
Equipment depreciation	26,440
Repair and maintenance of furniture, fixtures and equipment	31,325
Other expense	3,872,112
Total Expenses	<u>4,445,632</u>
	<u>\$ (379,847)</u>

The above details certain operations of premises pursuant to V.G.2 of the agreement between Horton Plaza Theatres Foundation and the Theatre. Additionally, license fees totalling \$2,205 for non-theatrical uses of the Lyceum were collected during the year ended June 30, 2016 related to the following years:

Year ended June 30, 2016	\$ <u>2,205</u>
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