PORTLAND PLAYHOUSE

Financial Statements
For the Year Ended July 31, 2018
With Independent Auditor's Report

PERKINS & CO

PORTLAND PLAYHOUSE
YEAR ENDED JULY 31, 2018
CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Portland Playhouse
Portland, OR

We have audited the accompanying financial statements of Portland Playhouse (a non-profit organization) which comprise the statement of financial position as of July 31, 2018, and the related statements of activities and changes in net assets, functional expenses 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Portland Playhouse as of July 31, 2018, 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 Portland Playhouse's 2017 financial statements, and our report dated November 14, 2017 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2017, is consistent an all material respects with the audited financial statements from which it has been derived.

Perkins & Company, P.C.

December 20, 2018

PORTLAND PLAYHOUSE
STATEMENT OF FINANCIAL POSITION
JULY 31, 2018
(With comparative totals for 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 167,192	$ 745,763
Investments	37,358	36,523
Pledges receivable - net	628,241	737,903
Prepaid expenses and other assets	47,491	29,930
Property and equipment - net	1,397,019	212,835
Total assets	$ 2,277,301	$ 1,762,954
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Line of credit	$ 300,000	$ -
Accounts payable	106,240	561
Accrued payroll liabilities	4,098	4,966
Deferred revenue	31,708	47,698
Total liabilities	442,046	53,225
NET ASSETS:		
Unrestricted:		
Board designated reserve	10,000	10,000
Available for programs and operations	1,413,116	293,288
Total unrestricted net assets	1,423,116	303,288
Temporarily restricted	412,139	1,406,441
Total net assets	1,835,255	1,709,729
	$ 2,277,301	$ 1,762,954

See notes to financial statements.

PORTLAND PLAYHOUSE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JULY 31, 2018
(With comparative totals for 2017)

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
OPERATING SUPPORT AND REVENUE:				
Support:				
Corporations	$ 3,679	$ -	$ 3,679	$ 18,741
Foundations	50,425	54,500	104,925	259,575
Government grants	72,559	71,900	144,459	54,282
Individuals	356,688	-	356,688	285,549
In-kind support	52,133	-	52,133	21,907
Special projects	38,629	-	38,629	23,752
Total operating support	574,113	126,400	700,513	663,806
Revenue:				
Educational services	58,250	-	58,250	40,982
Season subscriptions	64,129	-	64,129	62,964
Single tickets	284,260	-	284,260	178,371
Other income	46,575	-	46,575	31,244
Total operating revenues	453,214	-	453,214	313,561
Net assets released from restrictions	32,500	(32,500)	-	-
Total operating support and revenues	1,059,827	93,900	1,153,727	977,367
OPERATING EXPENSES:				
Artistic expenses	751,952	-	751,952	571,080
Education expenses	142,073	-	142,073	128,081
Management and general expenses	119,565	-	119,565	138,508
Fundraising expenses	135,955	-	135,955	138,168
Total operating expenses	1,149,545	-	1,149,545	975,837
Net operating income (loss)	(89,718)	93,900	4,182	1,530
NON-OPERATING INCOME AND (EXPENSE):				
Unrealized gain (loss) on investments	835	-	835	(1,623)
Loss on disposal of assets	(18,724)	-	(18,724)	-
Capital campaign contributions	-	307,320	307,320	730,734
Capital campaign expenses	(168,087)	-	(168,087)	(81,566)
Capital campaign funds released from restrictions	1,395,522	(1,395,522)	-	-
Total non-operating income and expense	1,209,546	(1,088,202)	121,344	647,545
INCREASE IN NET ASSETS	1,119,828	(994,302)	125,526	649,075
NET ASSETS AT BEGINNING OF YEAR	303,288	1,406,441	1,709,729	1,060,654
NET ASSETS AT END OF YEAR	$ 1,423,116	$ 412,139	$ 1,835,255	$ 1,709,729

See notes to financial statements.

PORTLAND PLAYHOUSE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2018
(With comparative totals for 2017)

	Program Services		Total	Supporting Services		Total	Total	
	Artistic Services	Education Services	Program Services	Management and General	Fundraising	Supporting Services	2018	2017
Salaries	$ 220,996	$ 73,006	$ 294,002	$ 32,043	$ 68,086	$ 100,129	$ 394,131	$ 335,746
Prospecting	-	-	-	-	10,689	10,689	10,689	19,768
Professional fees	-	-	-	19,380	-	19,380	19,380	23,187
Supplies	-	-	-	3,305	-	3,305	3,305	4,269
Gifts in kind	-	-	-	-	35,903	35,903	35,903	22,660
Postage and shipping	-	-	-	2,617	-	2,617	2,617	2,011
Occupancy	28,189	4,027	32,216	8,054	-	8,054	40,270	44,496
Education programs	-	45,166	45,166	-	-	-	45,166	56,057
Production sets and costumes	38,180	-	38,180	-	-	-	38,180	30,471
Advertising and marketing	79,495	19,874	99,369	-	-	-	99,369	84,673
Royalties	26,292	-	26,292	-	-	-	26,292	18,719
Artistic costs	31,707	-	31,707	-	-	-	31,707	16,162
Printing and publications	-	-	-	201	-	201	201	1,090
Travel	-	-	-	1,077	-	1,077	1,077	817
Conferences and meetings	-	-	-	6,333	-	6,333	6,333	8,072
Director, stage production, and actor fees	327,093	-	327,093	-	-	-	327,093	257,012
Recognition awards	-	-	-	92	-	92	92	405
Insurance	-	-	-	5,732	-	5,732	5,732	3,898
Special events	-	-	-	-	21,277	21,277	21,277	23,717
Other expenses	-	-	-	12,603	-	12,603	12,603	11,587
Total other expenses	751,952	142,073	894,025	91,437	135,955	227,392	1,121,417	964,817
Expenses before depreciation	751,952	142,073	894,025	91,437	135,955	227,392	1,121,417	964,817
Depreciation of property and equipment	-	-	-	28,128	-	28,128	28,128	11,020
TOTAL FUNCTIONAL EXPENSES	$ 751,952	$ 142,073	$ 894,025	$ 119,565	$ 135,955	$ 255,520	$ 1,149,545	$ 975,837

See notes to financial statements.

PORTLAND PLAYHOUSE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2018

(With comparative totals for 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 125,526	$ 649,075
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on investments	(835)	1,623
Loss on disposal of equipment	18,724	-
Depreciation	28,128	11,020
In-kind contributions of property and equipment	16,500	-
Contribution of investments	(68,871)	(155,168)
Amortization of discount on multi-year pledge	6,040	(9,689)
Net changes in:		
Receivables	103,622	(107,667)
Prepaid expenses and other assets	(17,561)	9,374
Accounts payable	105,679	(2,015)
Accrued payroll liabilities	(868)	87
Deferred revenue	(15,990)	16,513
Net cash provided by operating activities	300,094	413,153
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,247,536)	(99,123)
Proceeds from sale of investments	68,871	155,168
Net cash provided by (used in) investing activities	(1,178,665)	56,045
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	450,000	-
Repayments on line of credit	(150,000)	-
Net cash provided by financing activities	300,000	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(578,571)	469,198
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	745,763	276,565
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 167,192	$ 745,763
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 5,441	$ -

See notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Portland Playhouse (“the Organization”) is a professional theatre that serves the Portland, Oregon community. It was founded in 2008 with the mission of producing quality, intimate, performances in which the interaction between artists and audience is paramount. The Organization holds theatre to be in a space in which people of all social, economic, racial, sexual and political backgrounds can come together to celebrate the complexity of shared human experience. The Organization also provides educational services to the community.

The significant accounting policies are described below to enhance the usefulness of the financial statements.

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations. Unrestricted net assets include net assets for which the Board of Directors has imposed various internal stipulations as to usage.

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Portland Playhouse had no permanently restricted net assets for the years ended July 31, 2018 and 2017.

Revenue Recognition - Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions and related gains and investment income that are met in the same year as received are reported as unrestricted revenues.

Educational services revenue is recognized when earned. Season subscription revenue is recognized proportionally upon completion of each individual show and single ticket revenue is recognized upon completion of each show performance.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Estimates are used in accounting for, among other things, depreciation and amortization, allowance for doubtful accounts, present value of unconditional promises to give, and in-kind contributions. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Credit Risk - Financial instruments that potentially subject the Organization to credit risk consist principally of cash at financial institutions and investments. At times, the balances in cash accounts may be in excess of FDIC insurance limits. Management continuously monitors the Organization's balances at financial institutions and invests excess operating cash in short-term investments.

Investments - Investments are accounted for in accordance with Accounting Standards Codification ("ASC") 958-320, *Not-For-Profit Entities: Investments – Debt and Equity Securities*. Marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statement of financial position.

Net appreciation (depreciation) in fair value of investments, which consists of both the realized gains or losses and the unrealized appreciation (depreciation) of those investments, is reported in the statement of activities. Interest income is accrued as earned and reported net of investment advisory and transaction fees.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible the changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of financial position.

Pledges Receivable - Pledges receivable are comprised of amounts due from various contributors. Pledges to give are recognized as revenue or gains in the period the promises are received and as assets and contributed revenue. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization has no permanently restricted contributions. No allowance has been recorded for uncollectible pledges.

Three donors accounted for approximately 84% of pledges receivable as of July 31, 2018, four donors accounted for 80% of pledges receivable as of July 31, 2017. One donor accounted for approximately 16% of revenue for the year ended July 31, 2017.

Property and Equipment - Property and equipment is stated at cost or, if acquired by gift, at the estimated fair value at the date of the gift. The Organization's policy is to capitalize property and equipment greater than $500. Maintenance and repairs are charged to expense as incurred while significant replacements and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss on disposition is reflected in other income.

Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets from the date when the assets were placed in service. The useful lives for property and equipment are as follows:

	Years
Equipment and furniture	7 years
Leasehold improvements	15 years, or the remaining life of the lease
Buildings	30 years

Deferred Revenue - Deferred revenue represents monies received in advance for performance and season ticket purchases. The amount will be recognized as revenue in accordance with the Organization's revenue recognition policy.

Income Taxes - The Organization has been recognized by the Internal Revenue Service as exempt from income tax in accordance with Section 501(c)(3) of the Internal Revenue Code and is therefore generally exempt from federal and state income taxes.

Management does not consider any of the activity of the Organization to be considered unrelated business income that could result in income tax. For the years ended July 31, 2018 and 2017, there were no tax interest or penalties reflected in the statements of activities or in the statements of financial position.

In-Kind Contributions - Contributions of services and other expenses are recognized if they directly benefit the Organization. In-kind contributions amounted to $52,133 and $21,907 during the years ended July 31, 2018 and 2017, respectively.

Allocation of Expenses - The costs of providing the various program and supporting services of the Company have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services benefited. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classification.

Summarized Financial Information for 2017 - The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended July 31, 2017, from which the summarized information was derived.

Recently Adopted Accounting Standards - In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization has not yet evaluated the impact of adopting this standard.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America ("U.S. GAAP"). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2018. The Organization has not yet evaluated the impact of adopting this standard.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard simplifies and improves the presentation of the financial statements and enhances the disclosures in the notes. The new standard, among other things, decreases the number of net asset classes from three to two. The new classes will be net assets with donor restrictions and net assets without donor restrictions. The new standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization has not yet evaluated the impact of adopting this standard.

Subsequent Events - The Company has performed an evaluation of subsequent events in accordance with ASC Topic 855, *Subsequent Events*, through December 20, 2018, which is the date these financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments consist of securities in one large cap corporate stock which was donated during 2016 and is stated at fair value based on quoted prices in active markets, qualifying as a level 1 fair value in the fair value hierarchy. Investments held at July 31, 2018 and 2017 were valued at $37,358 and $36,523, respectively, with a cost of $48,571, and $835 of unrealized gain and $1,623 of unrealized losses during the years ended July 31, 2018 and 2017, respectively. Interest and dividends earned totaled $1,046 and $23 during the years ended July 31, 2018 and 2017, respectively.

NOTE 3 – PLEDGES RECEIVABLE

The Organization's pledges receivable are comprised primarily of contributions from private donors and foundations. Pledges receivable consist of the following at July 31:

	2018	2017
Unconditional pledges receivable	$ 642,100	$ 745,722
Less: Unamortized discount	(13,859)	(7,819)
Net pledges receivable	$ 628,241	$ 737,903
The pledges receivable are due as follows:		
Less than one year	$ 442,950	$ 497,308
One to five years	199,150	248,414
Total pledges receivable	$ 642,100	$ 745,722

Pledges promised over multiple years are assessed a discount for the present value discount for the time value of the pledge. The applicable discount rate at July 31, 2018 and 2017 was 4.25%. The multi-year discount as of July 31, 2018 and 2017 was $13,859 and $7,819, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31:

	2018	2017
Office furniture and equipment	$ 40,970	$ 78,113
Leasehold improvements	1,302,281	-
Work in process - capital campaign	100,767	172,101
	1,444,018	250,214
Less accumulated depreciation	(46,999)	(37,379)
	$ 1,397,019	$ 212,835

Depreciation expense was $28,128 and $11,020 for the years ended July 31, 2018 and 2017, respectively.

NOTE 5 – LINE OF CREDIT

Effective December 1, 2017, the Organization entered into a loan agreement with First Republic Bank to draw up to $1,000,000 to cover additional cash flow needs for the Capital Campaign building project until the outstanding pledges are collected and fundraising goals are completed. The agreement requires monthly interest payments at a fixed rate of 4.25%, matures on December 1, 2020, and is collateralized by all assets of the Organization, including pledges receivable and property and equipment. The debt is guaranteed by Playhouse on Prescott, LLC (see Note 7). The outstanding balance on the line of credit was $300,000 as of July 31, 2018.

The revolving line of credit contains certain affirmative covenants, including no additional indebtedness and certain financial reporting requirements which the Organization was in compliance with at July 31, 2018.

Subsequent to year-end, on November 7, 2018, the Organization refinanced the loan agreement with First Republic Bank with a new loan for $460,000 with the same bank. The new loan agreement requires monthly interest payments at a fixed rate of 5.65% and annual principal payments of $250,000 due December 31, 2019, $100,000 due December 31, 2020, and the balance due upon maturity on December 31, 2021, the loan is collateralized by all assets of the Organization, including pledges receivable and property and equipment.

NOTE 6 – RESTRICTIONS ON NET ASSETS

The board designated net assets of $10,000 to fund projects specifically for board approval as of July 31, 2018 and 2017. These funds are still classified as unrestricted net assets within these financial statements as the restriction is not externally imposed.

Temporarily restricted net assets are restricted for the following purposes or periods as follows:

	2018	2017
Pledges receivable	$ 73,400	$ 32,500
Restricted for subsequent years' activities	53,000	-
Capital campaign restricted funds	285,739	1,373,941
Total temporarily restricted net assets	$ 412,139	$ 1,406,441

Net assets released from restrictions by meeting contribution time requirements from prior years were $32,500 and $60,500 for the years ended July 31, 2018 and 2017, respectively.

The Organization records funding received for the capital campaign as temporarily restricted until appropriate expenditures are incurred. For the years ended July 31, 2018 and 2017, the Organization incurred $1,395,522 and $177,912 of appropriate expenditures, respectively, of which $168,087 and $81,566 was expensed, while $1,227,435 and $96,346 was capitalized, respectively, as property and equipment.

NOTE 7 – TRANSACTIONS WITH RELATED PARTIES

The Organization leases the facility located at 602 NE Prescott Street from Playhouse on Prescott, LLC owned by the current board chairman and relative of employees of the Organization. Rent expense for the facility amounted to $2,300 per month. Total rent expense totaled $27,600 and $26,700 for the years ended July 31, 2018 and 2017 respectively.

The lease continues through October 31, 2045; however, the Organization may elect to terminate the lease at any time upon six months' notice. Rent increases 2% per year for the full term of the lease. Future minimum rental payment commitments due under the lease are $14,358 for the year ending July 31, 2019.

The lease contains an option for the Organization to purchase Playhouse on Prescott, LLC. The sales price shall be equal to the original purchase price of $625,000, plus all capital improvements, repairs, expenses, and maintenance paid for by the landlord. If the lease is terminated by the Organization, the building shall be sold and the proceeds shall be paid first to the members of Playhouse on Prescott, LLC to recoup their total investment and Portland Playhouse would receive any remaining proceeds.

Contributions from board members were $74,003 and $84,750 for the years ended July 31, 2018 and 2017, respectively. An employee with First Republic Bank, with whom the Organization has an outstanding loan (see Note 5) and where the Organization's cash deposit accounts are held, sits on the Organization's Board of Directors.

NOTE 8 – CAPITAL CAMPAIGN

During 2016, the Organization commenced a capital campaign designed to raise funds to support substantial renovations of the Organization's leased facilities for theatrical performances and general operations. In connection with this capital campaign, the Organization increased various operating expenses including salaries to support fundraising and other operational functions to support the campaign. Construction on the capital campaign project commenced in mid-2017 and completion is expected early 2019.