



PORTLAND PLAYHOUSE

Financial Statements
For the Year Ended July 31, 2016
With Independent Auditor's Report



PORTLAND PLAYHOUSE
YEAR ENDED JULY 31, 2016
CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12

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, 2016, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 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 Portland Playhouse's 2015 financial statements, and our report dated December 14, 2015 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, 2015, is consistent in all material respects with the audited financial statements from which it has been derived.

Perkins $\frac{1}{3}$ Company, P.C.

November 22, 2016

PORTLAND PLAYHOUSE
STATEMENT OF FINANCIAL POSITION
JULY 31, 2016
(with comparative totals for 2015)

	2016	2015
<u>ASSETS</u>		
Cash and cash equivalents	\$ 276,565	\$ 21,755
Investments	38,146	-
Pledges receivable - net	620,547	48,603
Prepaid expenses and other assets	39,304	53,315
Property and equipment - net	124,732	57,254
Total assets	\$ 1,099,294	\$ 180,927
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable	\$ 2,576	\$ -
Accrued payroll liabilities	4,879	-
Deferred revenue	31,185	43,569
Total liabilities	38,640	43,569
 COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Board designated reserve	10,000	10,000
Available for programs and operations	169,035	16,436
Total unrestricted net assets	179,035	26,436
Temporarily restricted	881,619	110,922
Total net assets	1,060,654	137,358
	\$ 1,099,294	\$ 180,927

See notes to financial statements.

PORTLAND PLAYHOUSE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JULY 31, 2016
(with comparative totals for 2015)

	Unrestricted	Temporarily Restricted	Total	
			2016	2015
OPERATING SUPPORT AND REVENUE:				
Support:				
Corporations	\$ 2,943	\$ -	\$ 2,943	\$ 47,284
Foundations	238,500	-	238,500	144,360
Government grants	59,784	-	59,784	52,799
Individuals	290,313	40,750	331,063	273,464
In-kind support	81,197	-	81,197	35,850
Special projects	30,090	-	30,090	37,601
Total operating support	<u>702,827</u>	<u>40,750</u>	<u>743,577</u>	<u>591,358</u>
Revenue:				
Educational services	33,259	-	33,259	31,512
Season subscriptions	58,129	-	58,129	82,921
Single tickets	184,710	-	184,710	285,985
Other income	30,836	-	30,836	28,837
Total operating revenues	<u>306,934</u>	<u>-</u>	<u>306,934</u>	<u>429,255</u>
Net assets released from restrictions	90,922	(90,922)	-	-
Total operating support and revenues	<u>1,100,683</u>	<u>(50,172)</u>	<u>1,050,511</u>	<u>1,020,613</u>
OPERATING EXPENSES:				
Artistic expenses	550,956	-	550,956	698,581
Education expenses	114,564	-	114,564	70,636
Management and general expenses	131,626	-	131,626	147,188
Fundraising expenses	162,658	-	162,658	104,176
Total operating expenses	<u>959,804</u>	<u>-</u>	<u>959,804</u>	<u>1,020,581</u>
Net operating income (loss)	140,879	(50,172)	90,707	32
NON-OPERATING INCOME AND (EXPENSE):				
Unrealized loss on investments	(10,425)	-	(10,425)	-
Non-operating expenses	(24,299)	-	(24,299)	-
Capital campaign contributions	-	867,313	867,313	-
Capital campaign funds released from restrictions	46,444	(46,444)	-	-
Total non-operating income and expense	<u>11,720</u>	<u>820,869</u>	<u>832,589</u>	<u>-</u>
INCREASE IN NET ASSETS	<u>152,599</u>	<u>770,697</u>	<u>923,296</u>	<u>32</u>
NET ASSETS AT BEGINNING OF YEAR	<u>26,436</u>	<u>110,922</u>	<u>137,358</u>	<u>137,326</u>
NET ASSETS AT END OF YEAR	<u>\$ 179,035</u>	<u>\$ 881,619</u>	<u>\$ 1,060,654</u>	<u>\$ 137,358</u>

See notes to financial statements.

PORTLAND PLAYHOUSE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2016
(with comparative totals for 2015)

	Program Services		Total Program Services	Supporting Services		Total Supporting Services	Total	
	Artistic Services	Education Services		Management and General	Fundraising		2016	2015
Salaries	\$ 160,403	\$ 53,051	\$ 213,454	\$ 63,119	\$ 82,758	\$ 145,877	\$ 359,331	\$ 259,075
Prospecting	-	-	-	-	13,898	13,898	13,898	10,006
Professional fees	-	-	-	22,538	-	22,538	22,538	17,236
Supplies	-	-	-	3,857	-	3,857	3,857	2,589
Gifts in kind	-	-	-	-	22,587	22,587	22,587	36,395
Postage and shipping	-	-	-	1,155	-	1,155	1,155	1,839
Occupancy	31,137	4,448	35,585	9,552	-	9,552	45,137	47,602
Education programs	-	38,151	38,151	-	-	-	38,151	35,586
Production sets and costumes	32,841	-	32,841	-	-	-	32,841	47,830
Advertising and marketing	75,657	18,914	94,571	-	-	-	94,571	110,852
Casting	-	-	-	-	-	-	-	525
Royalties	20,570	-	20,570	-	-	-	20,570	46,368
Artistic costs	11,282	-	11,282	-	-	-	11,282	15,636
Printing and publications	-	-	-	1,952	-	1,952	1,952	410
Travel	-	-	-	493	-	493	493	451
Conferences and meetings	-	-	-	8,420	-	8,420	8,420	5,846
Director, stage production, and actor fees	219,066	-	219,066	-	-	-	219,066	332,878
Recognition awards	-	-	-	297	-	297	297	5,214
Insurance	-	-	-	6,684	-	6,684	6,684	4,983
Special events	-	-	-	-	26,729	26,729	26,729	25,746
Other expenses	-	-	-	2,623	16,686	19,309	19,309	5,198
Total other expenses	550,956	114,564	665,520	120,690	162,658	283,348	948,868	1,012,265
Expenses before depreciation	550,956	114,564	665,520	120,690	162,658	283,348	948,868	1,012,265
Depreciation of property and equipment	-	-	-	10,936	-	10,936	10,936	8,316
TOTAL FUNCTIONAL EXPENSES	\$ 550,956	\$ 114,564	\$ 665,520	\$ 131,626	\$ 162,658	\$ 294,284	\$ 959,804	\$ 1,020,581

See notes to financial statements.

PORTLAND PLAYHOUSE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2016
(with comparative totals for 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 923,296	\$ 32
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Unrealized loss on investments	10,425	-
Depreciation	10,936	8,316
In-kind contributions of property and equipment	(53,610)	-
Contribution of investments	(48,571)	-
Amortization of discount on multi-year pledge	16,686	822
Net changes in:		
Receivables	(588,630)	11,506
Prepaid expenses and other assets	14,011	3,700
Accounts payable	2,576	(36,399)
Other liabilities	4,879	(5,338)
Deferred revenue	(12,384)	(23,958)
Net cash provided by (used in) operating activities	279,614	(41,319)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(24,804)	(15,703)
Net cash used in investing activities	(24,804)	(15,703)
 NET DECREASE IN CASH AND CASH EQUIVALENTS	254,810	(57,022)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,755	78,777
 CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 276,565	\$ 21,755

See notes to financial statements.

PORTLAND PLAYHOUSE
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2016
(with comparative totals for 2015)

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, 2016 and 2015.

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.

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.

Four donors accounted for approximately 69% of pledges receivable as of July 31, 2016, while three donors accounted for 83% of pledges receivable as of July 31, 2015. One donor accounted for approximately 12% of revenue for the year ended July 31, 2016.

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:

	<u>Years</u>
Equipment and furniture	7 years
Leasehold improvements	15 years
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, 2016 and 2015, there were no tax interest or penalties reflected in the statements of activities or in the statements of financial position.

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.

In-Kind Contributions - Contributions of services and other expenses are recognized if they directly benefit the Organization. In-kind contributions amounted to approximately \$81,000 and \$36,000 during the years ended July 31, 2016 and 2015, respectively. Approximately \$53,000 of the in-kind contributions were capitalized as work in process related to the capital campaign building project.

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 2015 - 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, 2015, 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 these standards.

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 these standards.

Subsequent Events - The Company has performed an evaluation of subsequent events in accordance with Accounting Standards Codification (“ASC”) Topic 855, *Subsequent Events*, through November 22, 2016, 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, 2016 were valued at \$38,146, with a cost of \$48,571 and \$10,425 of unrealized loss during the year. Interest and dividends earned totaled \$738 during the year ended July 31, 2016. There were no investments or investment activity as of and for the year ended July 31, 2015.

NOTE 3 – PLEDGES RECEIVABLE

The Organization's pledges receivable are comprised primarily of contributions from private donors and foundations. Pledges receivable at July 31, 2016 consist of:

	<u>2016</u>	<u>2015</u>
Unconditional pledges receivable	\$ 638,055	\$ 49,425
Less: Unamortized discount	<u>(17,508)</u>	<u>(822)</u>
Net pledges receivable	<u>\$ 620,547</u>	<u>\$ 48,603</u>

The pledges receivable are due as follows:

Less than one year	\$ 337,419	\$ 38,603
One to five years	<u>300,636</u>	<u>10,000</u>
Total pledges receivable	<u>\$ 638,055</u>	<u>\$ 48,603</u>

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, 2016 and 2015 was 3.25%. The multi-year discount as of July 31, 2016 and 2015 was \$17,508 and \$822, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31:

	<u>2016</u>	<u>2015</u>
Office furniture and equipment	\$ 75,336	\$ 72,352
Accumulated depreciation	<u>(26,359)</u>	<u>(15,098)</u>
Work in process - capital campaign	75,755	-
	<u>\$ 124,732</u>	<u>\$ 57,254</u>

Depreciation expense was \$10,936 and \$8,316 for the years ended July 31, 2016 and 2015, respectively.

NOTE 5 – RESTRICTIONS ON NET ASSETS

The board designated net assets of \$10,000 to fund projects specifically for board approval as of July 31, 2016 and 2015. 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:

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$ 42,750	\$ 20,000
Restricted for subsequent years' activities	18,000	90,922
Capital campaign restricted funds	<u>820,869</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 881,619</u>	<u>\$ 110,922</u>

Net assets released from restrictions by meeting contribution time requirements from prior years were \$90,922 and \$42,300 for the years ended July 31, 2016 and 2015, respectively.

The Organization records funding received for the capital campaign as temporarily restricted until appropriate expenditures are incurred. For the year ended July 31, 2016, the Organization incurred \$46,444 of appropriate expenditures, of which \$24,299 was expensed while \$22,145 was capitalized as work in process. There were no capital campaign related activities during the year ended July 31, 2015.

NOTE 6 – 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 \$2,000 per month. Total rent expense totaled \$24,000 for the years ended July 31 2016 and 2015.

The lease continues through October 31, 2045, however the Organization may elect to terminate the lease at any time upon 6 months' notice. Rent increases to \$2,300 per month for the year ended July 31, 2017, followed by a 2% increase per year for the full term of the lease. Future minimum rental payment commitments due under the lease are \$13,800 for the year ending July 31, 2017.

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 \$133,075 and \$72,990 for the years ended July 31, 2016 and 2015, respectively.

NOTE 7 – 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.