THE PHOENIX THEATRE, INC.
Phoenix, Arizona

FINANCIAL STATEMENTS
June 30, 2014 and 2013

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
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June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Phoenix Theatre, Inc.
Phoenix, Arizona

We have audited the accompanying financial statements of The Phoenix Theatre, Inc. (Theatre), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Board of Directors
The Phoenix Theatre, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Phoenix Theatre, Inc. and Subsidiary as of June 30, 2014 and 2013, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Phoenix, Arizona
December 2, 2014

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 491,538	$ 16,379
Accounts receivable	9,597	8,912
Pledges receivable	228,823	189,063
Prepaid expenses and other assets	159,224	240,042
Donated facility space receivable, current portion	547,600	693,728
Donated utility allowance receivable, current portion	68,547	70,934
Total current assets	1,505,329	1,219,058
PLEDGES RECEIVABLE, NET		
Less current maturities and unamortized discount	130,000	283,250
COSTUME INVENTORY	60,353	60,353
PROPERTY AND EQUIPMENT, net	1,209,785	872,532
ASSETS RESTRICTED FOR CAPITAL CAMPAIGN		
Restricted cash	-	273,255
Pledges receivable, less allowance and unamortized discount	2,216,782	972,553
Total assets restricted for capital campaign	2,216,782	1,245,808
DONATED FACILITY SPACE RECEIVABLE, net	11,805,042	2,450,946
DONATED UTILITY ALLOWANCE RECEIVABLE, net	1,477,721	290,933
LIQUOR LICENSE	74,664	19,715
TOTAL ASSETS	$ 18,479,676	$ 6,442,595

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Accounts payable	$ 91,331	$ 304,425
Accrued expenses	79,613	63,053
Deferred revenue	1,065,772	1,014,843
Current maturities of note payable	141,023	2,639
Lines of credit	1,800,000	2,300,000
Total current liabilities	3,177,739	3,684,960
NOTE PAYABLE, less current maturities	261,985	831
Total liabilities	3,439,724	3,685,791
NET ASSETS		
Unrestricted	(1,511,363)	(2,559,658)
Temporarily restricted	16,506,315	5,271,462
Permanently restricted	45,000	45,000
Total net assets	15,039,952	2,756,804
TOTAL LIABILITIES AND NET ASSETS	$ 18,479,676	$ 6,442,595

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

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND PUBLIC SUPPORT				
Performance programs	$ 3,379,380	$ -	$ -	$ 3,379,380
Ticket servicing revenue	234,139	-	-	234,139
Contributions	881,487	2,237,546	-	3,119,033
Special events	421,039	-	-	421,039
Less direct donor expenses	(44,804)	-	-	(44,804)
Academy	157,057	-	-	157,057
Rental income	87,218	-	-	87,218
In-kind contributions	539,997	10,471,007	-	11,011,004
Other revenue	58	-	-	58
Net assets released from restrictions	1,473,700	(1,473,700)	-	-
Total revenues and public support	7,129,271	11,234,853	-	18,364,124
EXPENSES				
Program services	4,743,116	-	-	4,743,116
Supporting services:				
Management and general	715,406	-	-	715,406
Fundraising	543,516	-	-	543,516
Total functional expenses	6,002,038	-	-	6,002,038
Contribution to City of Phoenix for new theater and box office	78,938	-	-	78,938
Total expenses	6,080,976	-	-	6,080,976
CHANGES IN NET ASSETS	1,048,295	11,234,853	-	12,283,148
NET ASSETS, BEGINNING OF YEAR	(2,559,658)	5,271,462	45,000	2,756,804
NET ASSETS, END OF YEAR	$ (1,511,363)	$ 16,506,315	$ 45,000	$ 15,039,952

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

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND PUBLIC SUPPORT				
Performance programs	$ 2,360,831	$ -	$ -	$ 2,360,831
Ticket servicing revenue	157,404	-	-	157,404
Contributions	330,538	1,307,534	-	1,638,072
Special events	297,230	-	-	297,230
Less direct donor expenses	(63,525)	-	-	(63,525)
Academy	100,080	-	-	100,080
Rental income	76,145	-	-	76,145
In-kind contributions	-	618,819	-	618,819
Other revenue	26,850	-	-	26,850
Net assets released from restrictions	2,859,506	(2,859,506)	-	-
Total revenues and public support	6,145,059	(933,153)	-	5,211,906
EXPENSES				
Program services	3,869,187	-	-	3,869,187
Supporting services:				
Management and general	532,958	-	-	532,958
Fundraising	559,511	-	-	559,511
Total functional expenses	4,961,656	-	-	4,961,656
Contribution to City of Phoenix for new theater and box office	3,921,708	-	-	3,921,708
Total expenses	8,883,364	-	-	8,883,364
CHANGES IN NET ASSETS	(2,738,305)	(933,153)	-	(3,671,458)
NET ASSETS, BEGINNING OF YEAR	178,647	6,204,615	45,000	6,428,262
NET ASSETS, END OF YEAR	$ (2,559,658)	$ 5,271,462	$ 45,000	$ 2,756,804

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

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014

		Supporting Services		
	Program Services	Management and General	Fundraising	Total
Salaries	$ 1,978,946	$ 250,813	$ 250,444	$ 2,480,203
Employee benefits and payroll taxes	186,810	43,956	43,956	274,722
Total personnel costs	2,165,756	294,769	294,400	2,754,925
Education activities	13,393	-	-	13,393
Bad debt expense	-	17,611	-	17,611
Bank fees	-	117,713	-	117,713
Concessions	97,377	-	-	97,377
Fundraising	-	-	233,273	233,273
In-kind expense	606,529	6,053	6,053	618,635
Insurance	26,381	3,721	-	30,102
Interest	-	101,217	-	101,217
Miscellaneous	25,024	10,025	4,088	39,137
Production materials	316,975	-	-	316,975
Production travel and housing	85,105	-	-	85,105
Professional services	254,616	58,172	-	312,788
Program marketing	476,910	-	-	476,910
Repairs and maintenance	11,168	13,560	-	24,728
Royalties	339,648	-	-	339,648
Supplies	38,853	42,171	162	81,186
Travel and housing	23,943	9,854	-	33,797
Utilities	138,251	28,152	1,411	167,814
Total expenses before depreciation and amortization	4,619,929	703,018	539,387	5,862,334
Depreciation and amortization	123,187	12,388	4,129	139,704
TOTAL FUNCTIONAL EXPENSES	$ 4,743,116	$ 715,406	$ 543,516	$ 6,002,038

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

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Salaries	$ 1,556,365	$ 249,702	$ 248,420	$ 2,054,487
Employee benefits and payroll taxes	168,757	28,354	26,879	223,990
Total personnel costs	1,725,122	278,056	275,299	2,278,477
Education activities	16,619	-	-	16,619
Bad debt expense	-	13,760	-	13,760
Bank fees	50,913	23,498	3,916	78,327
Concessions	51,881	7,075	-	58,956
Fundraising	-	-	208,396	208,396
In-kind expense	584,878	45,490	19,496	649,864
Insurance	22,824	3,156	-	25,980
Interest	48,035	4,233	-	52,268
Miscellaneous	20,691	24,331	6,154	51,176
Production materials	177,575	-	-	177,575
Production travel and housing	22,005	-	-	22,005
Professional services	235,283	43,097	26,840	305,220
Program marketing	363,955	-	-	363,955
Repairs and maintenance	11,516	11,760	-	23,276
Royalties	287,062	-	-	287,062
Supplies	31,250	18,750	6,818	56,818
Travel and housing	27,920	13,284	-	41,204
Utilities	133,718	39,225	5,350	178,293
Total expenses before depreciation and amortization	3,811,247	525,715	552,269	4,889,231
Depreciation and amortization	57,940	7,243	7,242	72,425
TOTAL FUNCTIONAL EXPENSES	$ 3,869,187	$ 532,958	$ 559,511	$ 4,961,656

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

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 12,283,148	$ (3,671,458)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	139,704	72,425
Construction in progress transfered to the City of Phoenix	-	1,623,366
Donated facility space receivable, net	(9,207,968)	106,461
Donated utility allowance receivable, net	(1,184,401)	(13,942)
Change in discount on pledges receivable	(49,574)	-
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(685)	2,270
Pledges receivable	163,064	10,148
Prepaid expenses and other assets	80,818	81,654
Liquor license	(54,949)	(637)
Accounts payable	(213,094)	137,938
Accrued expenses	16,560	(12,184)
Deferred revenue	50,929	93,905
Net cash provided by (used in) operating activities	2,023,552	(1,570,054)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in restricted cash	273,255	413,485
Purchases of property and equipment	(476,957)	(546,769)
Net cash used in investing activities	(203,702)	(133,284)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital campaign pledges	903,697	789,527
Changes in capital campaign pledges receivable	(2,147,926)	(402,528)
Proceeds from notes payable	437,430	-
Repayments on notes payable	(37,892)	(2,115)
Proceeds (repayments) on line of credit	(500,000)	1,300,000
Net cash provided by (used in) financing activities	(1,344,691)	1,684,884
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALEI	475,159	(18,454)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,379	34,833
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 491,538	$ 16,379
SUPPLEMENTAL INFORMATION		
Interest paid	$ 101,217	$ 52,268
In-kind contributions	$ 77,887	$ -
In-kind contribution of facility space	$ 9,688,558	$ 547,600
In-kind contribution of utilities	$ 1,244,559	$ 67,754

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Phoenix Theatre, Inc., (Theatre) founded in 1920 as Phoenix Little Theatre, was incorporated in 1945, as a not-for-profit corporation under the laws of the State of Arizona.

The Theatre is a community oriented 501(c)(3) non-profit professional theatre company serving the Phoenix Metropolitan area. The Theatre is one of the largest local theatrical organizations in the community. The Theatre's principal programming is a series of main stage performances consisting of musicals, comedy and drama. The season typically consists in excess of six productions from September through May.

The Theatre also has acting programs and classes available to the public, as well as a contract with a local school to provide drama instruction, an after school program, and drama curriculum.

Basis of Presentation

The Theatre's financial statements have been prepared in accordance with the American Institute of Certified Public Accountants (AICPA) Not-For-Profit Industry Guidance within the Financial Accounting Standards Board (FASB) Codification (Guidance). Under the Guidance, the Theatre is required to provide financial statements which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as follows:

Unrestricted Net Assets
Unrestricted net assets are not subject to donor imposed stipulations and are those currently available at the discretion of the Board of Directors for use in the Theatre's operations, in accordance with its bylaws. Temporarily restricted assets received and expended in the same year are classified as unrestricted.

Temporarily Restricted Net Assets
Temporarily restricted net assets are those which are subject to donor-imposed stipulations that will be met by the Theatre and/or the passage of time.

Permanently Restricted Net Assets
Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the total aggregate contributions remain in perpetuity and a portion of total investment return is available as unrestricted or temporarily restricted, as per the endowment agreements.

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 explicitly by 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 reclassifications to unrestricted net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of 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.

Cash and Cash Equivalents

Cash includes cash and may, at times, include cash equivalents, which consist of highly liquid investments with original maturities of three months or less when acquired.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect under the terms of the service contracts and agreements. Management provides for probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based on its assessment of the current status of individual contracts. Account balances with invoices over one year old are considered delinquent. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction of receivables. As of June 30, 2014 and 2013, the allowance for doubtful accounts was $0 as management believes all accounts receivable balances were collectible.

Pledges Receivable

Unconditional promises to give (pledges receivable) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Monies received pursuant to conditional promises are reflected as deferred revenue. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates as determined by management that are applicable to the years in which the promises are made. Amortization of the discount is included in contribution support. Management provides for probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based on its assessment of the current status of individual pledges. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction of receivables.

Costume Inventory

The Theatre maintains an inventory of costumes and records such inventory at cost.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchased property and equipment are initially recorded at cost and donated property and equipment are recorded at the fair value at the date of gift to the Theatre. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of stated amounts are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations. Property and equipment costing $500 or more were capitalized. Depreciation of property and equipment is computed on a straight-line basis over the following general range of estimated useful lives:

Buildings and improvements	15 to 28 years
Furniture and equipment	3 to 15 years
Vehicles	7 years

Donations of property and equipment are recorded as contributions at the estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding its use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions 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.

Impairment of Long-Lived Assets

The Theatre reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators were present at June 30, 2014 and 2013.

Donated Facility Space and Utility Allowance Receivable

The donated facility space and utility allowance receivable is comprised of a multi-year contribution from the City of Phoenix, Arizona. This unconditional promise to give is recorded at the present value of the estimated fair value of the rents. The discount on these amounts was computed using an interest rate of 3.25%, as determined by management, and is applicable to the years in which the promise is to be received. Amortization of the discount is included in contribution support (Note 9).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Cash received from ticket sales in advance for the subsequent year's performance is deferred until the period in which the performance is presented.

Performance Revenue

Performance revenue is recorded from ticket sales for performances and is recognized in the period the performance is presented.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished or a donor removes a restriction), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Special Events Revenue

The Theatre conducts special events in which a portion of the gross proceeds paid by the participant represents payments for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Theatre. The direct costs of the special events which ultimately benefit the donor rather than the Theatre are included in special events revenues and then expensed as costs of direct donor benefits.

Donated Services and Materials

Donated property, equipment, materials and services are recognized as contributions at their estimated values on the date of receipt. The Theatre utilizes volunteer services in several areas of operations. Volunteer services that require special skills and otherwise need to be purchased by the program, are recorded as support and expense in the period provided. Nonprofessional volunteer hours are not recorded as revenue or expense in the accompanying financial statements.

Advertising

Advertising costs are expensed when incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The costs to the Theatre of providing the various programs and other activities have been presented on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs are allocated based on salary and square footage percentages.

Income Tax Status

The Phoenix Theatre, Inc. qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code), and accordingly, there is no provision for corporate income taxes in the accompanying financial statements. In addition, this Theatre qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Federal and state income tax returns of the Theatre for 2011, 2012 and 2013 are subject to examination by the Internal Revenue Service and state taxing authorities generally for three years after they were filed. Management believes that the Theatre and PT have no uncertain tax positions as of June 30, 2014 and 2013.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2014	
	Capital Campaign	Program Related
Pledges receivable before unamortized discount	$ 2,342,034	$ 358,823
Less unamortized discount	(78,452)	-
Total	2,263,582	358,823
Less alowance for uncollectibles	(46,800)	-
Pledges receivable, net	$ 2,216,782	$ 358,823
Amounts due in:		
Less than one year	$ 608,527	$ 228,823
One to five years	1,733,507	130,000
Total	$ 2,342,034	$ 358,823

NOTE 2 PLEDGES RECEIVABLE (CONTINUED)

	2013	
	Capital Campaign	Program Related
Pledges receivable before unamortized discount	$ 1,048,231	$ 472,313
Less unamortized discount	(28,878)	-
Total	1,019,353	472,313
Less alowance for uncollectibles	(46,800)	-
Pledges receivable, net	$ 972,553	$ 472,313
Amounts due in:		
Less than one year	$ 515,666	$ 189,063
One to five years	532,565	283,250
Total	$ 1,048,231	$ 472,313

The discount rate used to determine the present value of the pledges receivable balance is a rate considered appropriate for the expected repayment term. For the years ended June 30, 2014 and 2013, this discount rate ranged from 0.72% to 1.79%. Two capital related pledges account for 86% of the capital related pledge receivable balance as of June 30, 2014. Five program related pledges accounted for 91% of the program related pledge receivable balance as of June 30, 2013 and two pledges accounted for 55% of the capital campaign pledges receivable balance as of June 30, 2013.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2014	2013
Building and improvements	$ 1,259,937	$ 1,252,153
Furniture and equipment	1,616,604	1,148,141
Computer equipment and software	223,291	222,579
Vehicles	57,282	57,282
	3,157,114	2,680,155
Less accumulated depreciation and amortization	(1,947,329)	(1,807,623)
Property and equipment, net of accumulated depreciation and amortization	$ 1,209,785	$ 872,532

NOTE 3 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation and amortization expense charged to operations was $139,704 and $72,425 during the years ended June 30, 2014 and 2013, respectively.

The buildings and land occupied by the Theatre are owned by the City of Phoenix and are leased to the Theatre under a long-term lease agreement. See Note 9 for details.

During fiscal year 2013, the Theatre transferred certain construction in progress costs associated with the construction of buildings owned by the City of Phoenix to the City of Phoenix.

NOTE 4 NOTE PAYABLE

During fiscal year 2014, the Theatre took out a term loan with Wells Fargo to finance equipment for the new theatre. The Note matures March 31, 2017. Interest is payable monthly at 4.3%. There was a balance of $403,008 and $0 as of June 30, 2014 and 2013, respectively.

Note payable consists of the following:

	2014	2013
Note payable to bank; due in monthly installments of $12,973, including interest at 4.3%, due March 31, 2017.	$ 403,008	$ -
Note payable to a bank; due in monthly installments of $220, including interest at 7.69%, due November 30, 2014; collateralized by a vehicle and paid in full.	-	3,470
Total	403,008	3,470
Less current maturities	141,023	2,639
Note payable, less current maturities	$ 261,985	$ 831

Future maturities of the note payable are as follows:

2015	$ 141,023
2016	147,292
2017	114,693
Total	$ 403,008

NOTE 5 LINES OF CREDIT

The Theatre has a $400,000 line of credit with a bank which is renewed annually, with a maturity date of January 1, 2015. Interest is payable monthly at 1.75% above the prime rate or the floor rate of 3.25% (3.25% at June 30, 2014 and 2013). The line of credit is secured by inventory, equipment and fixtures. There was no balance drawn on the line of credit as of June 30, 2014 and 2013. The Theater also has a $50,000 letter of credit that is renewed annually, with a maturity date of December 11, 2014.

The Theater entered into a $2,150,000 line of credit with a bank to bridge the financing for the Black Box Theater capital project. This line of credit matures January 1, 2017. Interest is payable monthly at the prime rate (3.25% at June 30, 2014). The line of credit has a step down provision where beginning March 15, 2014, the available balance to draw upon will be $800,000; and beginning March 15, 2015, the available balance to draw upon will be $300,000. The line of credit is secured by inventory, equipment and fixtures. There was $800,000 and $1,300,000 and drawn on the line of credit as of June 30, 2014 and June 30, 2013, respectively.

During fiscal 2012, the Theatre entered into a $1,000,000 line of credit with a bank to finance the Black Box Theatre capital expansion project. This line of credit matured November 10, 2014. Interest is payable monthly at a rate of 1% below the prime rate (2.25% at June 30, 2014). The line of credit is secured by a certificate of deposit of an outside party. This line of credit is also guaranteed by this outside party. There was a $1,000,000 balance drawn on the line of credit as of June 30, 2014 and June 30, 2013, respectively. Subsequent to year end the line of credit matured and the Theatre obtained a new financing agreement and paid the line of credit in full. See Note 13.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2014	2013
Program restrictions	$ 223,000	$ -
Capital campaign pledges receivable and restricted cash	2,263,582	1,292,608
Time restrictions	120,823	472,313
Donated facility space receivable	12,352,642	3,144,674
Donated utility allowance receivable	1,546,268	361,867
Total	$ 16,506,315	$ 5,271,462

Net assets of $1,473,700 and $2,859,506 were released from restriction during 2014 and 2013, respectively.

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of funds for which the donors stipulate the principal is to be maintained in perpetuity. The earnings and net appreciation on these funds are unrestricted and temporarily restricted and are allocated for specific purposes by the Theatre's Board of Directors or in accordance with the donor agreement. The Theatre had $45,000 of permanently restricted net assets at June 30, 2014 and 2013.

NOTE 8 OPERATING LEASES

The Theatre leases office equipment under an operating lease agreement that expires on July 2015. Minimum future payments under this noncancelable operating lease after June 30, 2014, are as follows:

Years ending June 30		
2015	$	11,295
2016		1,491
2017		373
Total minimum future rental payments	$	13,159

Total rental expense for operating leases with terms in excess of one month was approximately $15,400 and $17,000 during the years ended June 30, 2014 and 2013, respectively.

NOTE 9 FACILITIES OPERATING LEASE

Since the 1950's, the Theatre has leased the land and theatre facilities from the City of Phoenix for a nominal fee. The Theatre entered into a new agreement to lease the Theatre facilities from the City of Phoenix for 59 years, effective January 1, 1997. The annual lease payment for the building rent is $1. The estimated value of the annual rent was in excess of $547,600 during the years ended June 30, 2014 and 2013. In addition, according to the lease agreement, the Theatre is responsible for the utility costs of the facilities and maintenance costs for the shared common areas in excess of a yearly allowance. This utility allowance is based on the actual cost of utilities for the year ended June 30, 1993. This baseline amount is indexed annually for inflation with the Consumer Price Index.

In connection with the Black Box Theatre capital expansion project, the lease was amended in March of 2014, and the cancellation policy was not included in the update. Based on the operating agreement terms, the Theatre is receiving an unconditional promise to give for the use of the facility and the utility allowance for the entirety of the contract, through December 31, 2055.

NOTE 9 FACILITIES OPERATING LEASE (CONTINUED)

At June 30, the donated facility space and utility allowance receivable consists of the following:

	2014	
	Donated Facility Space Receivable	Utility Allowance Receivable
Receivable amount before unamortized discount	$ 22,999,200	$ 2,878,974
Less unamortized discount	(10,646,558)	(1,332,706)
Total	$ 12,352,642	$ 1,546,268
Amounts due in:		
Less than one year	$ 547,600	$ 68,547
Over one year	22,451,600	2,810,427
Total	$ 22,999,200	$ 2,878,974

	2013	
	Donated Facility Space Receivable	Utility Allowance Receivable
Receivable amount before unamortized discount	$ 3,264,000	$ 376,600
Less unamortized discount	(119,326)	(14,733)
Total	$ 3,144,674	$ 361,867
Amounts due in:		
Less than one year	$ 693,728	$ 70,934
One to five years	2,570,272	305,666
Total	$ 3,264,000	$ 376,600

NOTE 10 EMPLOYEE RETIREMENT PLAN

During the year ended June 30, 2006, the Theatre adopted a 403(b) retirement plan. All employees of the Theatre are eligible for participation in the plan. The Theatre is not obligated and has elected not to contribute to this plan for the years ended June 30, 2007 through June 30, 2014. The Theatre does not have any unfunded liabilities associated with this retirement plan.

NOTE 11 RELATED PARTY TRANSACTIONS

In December 2007, the Theatre entered into a box office, ticketing services and rental fee sharing agreement(s) with Theatre Management Consultants, LLC (TMC), an Arizona based for profit LLC owned and managed by the Theatre's Managing Director. The agreements provide that the Theatre will have the exclusive rights to provide box office and ticketing services to TMC clients performing at Playhouse on the Park at Viad Corporate Center and TMC will have overlapping use of the Theatre's office equipment and staff support in booking the venue. TMC does not occupy or lease office space from or at the Theatre. The revenue share between TMC and PT shall be at the rate of a fifty percent split of a 10% rental fee collected by TMC from all TMC clients at Playhouse on the Park. The 10% fee is calculated based on total rent charged to TMC clients. Additionally, the revenue share between PT and TMC shall be at the rate of a fifty percent split of all box office per ticket fee revenue charged to the ticket buyers by PT on behalf of TMC clients. These agreements renew each year for a one year term on November 30 unless a 30 day notice of termination is issued by one of the parties. The total amount of revenue earned from this relationship was $5,259 and $5,895 for the years ended June 30, 2014 and 2013, respectively. Further, for the years ended June 30, 2014 and 2013, there was $63 and $0, respectively, in accounts receivable due to this relationship.

NOTE 12 CONCENTRATION OF CREDIT RISK

The Theatre maintains all of its cash with high-credit quality financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. As of June 30, 2014 and 2013, a portion of cash balances exceeded the balance insured by the FDIC.

NOTE 13 SUBSEQUENT EVENTS

On October 30, 2014, the Theatre obtained financing in the form of a note with total principal of $1,800,000, of which part of the proceeds was used to pay the line of credit outstanding of $1,000,000 in full.

Management evaluated subsequent events through December 2, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to December 2, 2014, that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2014.