THE PHOENIX THEATRE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
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YEARS ENDED JUNE 30, 2016 AND 2015

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Phoenix Theatre, Inc. and Subsidiary, which comprises the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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. and Subsidiary

Opinion

In our opinion, the consolidated 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, 2016 and 2015, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
November 15, 2016

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,006,069	$ 158,952
Accounts Receivable	27,621	2,656
Pledges Receivable, Net	102,254	179,498
Prepaid Expenses and Other Assets	265,588	210,444
Donated Facility Space Receivable, Current Portion	547,600	547,600
Donated Utility Allowance Receivable, Current Portion	68,547	68,547
Total Current Assets	2,017,679	1,167,697
PLEDGES RECEIVABLE, Net		
Less Current Maturities and Unamortized Discount	40,000	60,000
COSTUME INVENTORY	60,353	60,353
PROPERTY AND EQUIPMENT, Net	2,633,709	2,477,684
ASSETS RESTRICTED FOR CAPITAL CAMPAIGN		
Pledges Receivable, Less Allowance and Unamortized Discount	1,230,372	1,671,242
Total Assets Restricted for Capital Campaign	1,230,372	1,671,242
DONATED FACILITY SPACE RECEIVABLE, Net	11,520,210	11,664,937
DONATED UTILITY ALLOWANCE RECEIVABLE, Net	1,442,067	1,460,183
LIQUOR LICENSE	73,127	73,127
Total Assets	$ 19,017,517	$ 18,635,223

See accompanying Notes to Consolidated Financial Statements.

	2016	2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 246,204	$ 332,955
Accrued Expenses and Other Liabilities	103,746	51,658
Deferred Revenue	1,114,457	963,265
Current Maturities of Notes Payable	438,536	470,102
Total Current Liabilities	1,902,943	1,817,980
NOTES PAYABLE, Less Current Maturities	1,659,587	2,098,208
Total Liabilities	3,562,530	3,916,188
NET ASSETS		
Unrestricted, Includes Board Designated Funds of $999,928 for 2016 and $-0- for 2015	151,860	(1,184,263)
Temporarily Restricted	15,258,127	15,858,298
Permanently Restricted	45,000	45,000
Total Net Assets	15,454,987	14,719,035
Total Liabilities and Net Assets	$ 19,017,517	$ 18,635,223

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND PUBLIC SUPPORT				
Performance Programs	$ 3,173,476	$ -	$ -	$ 3,173,476
Ticket Servicing Revenue	215,988	-	-	215,988
Contributions	1,883,698	765,791	-	2,649,489
Special Events	546,492	-	-	546,492
Less Direct Donor Expenses	(52,711)	-	-	(52,711)
Academy	232,670	-	-	232,670
Rental Income	177,598	-	-	177,598
In-Kind Contributions	89,012	-	-	89,012
Other Revenue	6,096	-	-	6,096
Net Assets Released from Restrictions	1,365,962	(1,365,962)	-	-
Total Revenues and Public Support	7,638,281	(600,171)	-	7,038,110
EXPENSES				
Program Services	4,178,654	-	-	4,178,654
Supporting Services:				
Management and General	1,485,112	-	-	1,485,112
Fundraising	636,657	-	-	636,657
Total Functional Expenses	6,300,423	-	-	6,300,423
OTHER EXPENSE				
Gain on Sale of Disposal of Real Property	(1,735)	-	-	(1,735)
Net Other Expense	(1,735)	-	-	(1,735)
CHANGES IN NET ASSETS	1,336,123	(600,171)	-	735,952
Net Assets - Beginning of Year	(1,184,263)	15,858,298	45,000	14,719,035
NET ASSETS - END OF YEAR	$ 151,860	$ 15,258,127	$ 45,000	$ 15,454,987

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND PUBLIC SUPPORT				
Performance Programs	$ 2,675,110	$ -	$ -	$ 2,675,110
Ticket Servicing Revenue	187,695	-	-	187,695
Contributions	663,452	501,851	-	1,165,303
Special Events	405,903	-	-	405,903
Less Direct Donor Expenses	(53,395)	-	-	(53,395)
Academy	211,340	-	-	211,340
Rental Income	191,421	-	-	191,421
In-Kind Contributions	337,760	-	-	337,760
Other Revenue	5,364	-	-	5,364
Net Assets Released from Restrictions	1,149,868	(1,149,868)	-	-
Total Revenues and Public Support	5,774,518	(648,017)	-	5,126,501
EXPENSES				
Program Services	3,818,608	-	-	3,818,608
Supporting Services:				
Management and General	1,248,322	-	-	1,248,322
Fundraising	514,313	-	-	514,313
Total Expenses	5,581,243	-	-	5,581,243
OTHER INCOME				
Gain on Sale of Disposal of Real Property	66,504	-	-	66,504
Gain on Extinguishment of Debt	67,321	-	-	67,321
Other Income	133,825	-	-	133,825
CHANGES IN NET ASSETS	327,100	(648,017)	-	(320,917)
Net Assets - Beginning of Year	(1,511,363)	16,506,315	45,000	15,039,952
NET ASSETS - END OF YEAR	$ (1,184,263)	$ 15,858,298	$ 45,000	$ 14,719,035

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

		Supporting Services		
	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,075,872	$ 408,106	$ 313,692	$ 2,797,670
Employee Benefits and Payroll Taxes	208,734	78,493	59,546	346,773
Total Personnel Costs	2,284,606	486,599	373,238	3,144,443
Education Activities	19,078	-	-	19,078
Bad Debt Expense	-	15,548	-	15,548
Bank Fees	-	93,437	-	93,437
Concessions	135,901	-	-	135,901
Fundraising	-	-	253,651	253,651
In-Kind Expense	330,984	-	-	330,984
Insurance	37,479	4,677	-	42,156
Interest	-	124,443	-	124,443
Miscellaneous	24,201	32,264	7,720	64,185
Production Materials	247,175	-	-	247,175
Production Travel and Housing	42,420	-	-	42,420
Professional Services	273,240	126,583	-	399,823
Program Marketing	-	432,782	-	432,782
Repairs and Maintenance	31,615	32,535	-	64,150
Royalties	272,115	-	-	272,115
Supplies	98,575	41,116	653	140,344
Travel and Housing	5,977	39,803	-	45,780
Utilities	158,426	29,460	1,395	189,281
Total Expenses Before Depreciation and Amortization	3,961,792	1,459,247	636,657	6,057,696
Depreciation and Amortization	216,862	25,865	-	242,727
Total Functional Expenses	$ 4,178,654	$ 1,485,112	$ 636,657	$ 6,300,423

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Salaries	$ 1,873,006	$ 317,734	$ 262,851	$ 2,453,591
Employee Benefits and Payroll Taxes	192,330	56,219	47,343	295,892
Total Personnel Costs	2,065,336	373,953	310,194	2,749,483
Education Activities	14,770	-	-	14,770
Bad Debt Expense	-	115,523	-	115,523
Bank Fees	-	96,080	-	96,080
Concessions	87,605	-	-	87,605
Fundraising	-	-	195,862	195,862
In-Kind Expense	440,003	-	-	440,003
Insurance	28,107	11,832	-	39,939
Interest	-	130,547	-	130,547
Miscellaneous	10,039	5,439	6,662	22,140
Production Materials	233,424	-	-	233,424
Production Travel and Housing	66,442	-	-	66,442
Professional Services	183,841	122,809	-	306,650
Program Marketing	-	290,934	-	290,934
Repairs and Maintenance	27,256	19,461	-	46,717
Royalties	253,933	-	-	253,933
Supplies	40,509	38,877	143	79,529
Travel and Housing	47,438	20,426	-	67,864
Utilities	142,303	22,441	1,452	166,196
Total Expenses Before Depreciation and Amortization	3,641,006	1,248,322	514,313	5,403,641
Depreciation and Amortization	177,602	-	-	177,602
Total Functional Expenses	$ 3,818,608	$ 1,248,322	$ 514,313	$ 5,581,243

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	$ 735,952	$ (320,917)
Adjustments to Reconcile Changes in Net Assets to Net		
Cash Provided by Operating Activities:		
Depreciation and Amortization	242,727	177,602
Gain on Disposal of Real Property	1,735	(66,504)
Gain on Extinguishment of Debt	-	(67,321)
Donated Facility Space Receivable, Net	144,727	140,105
Donated Utility Allowance Receivable, Net	18,116	17,538
Change in Discount on Pledges Receivable	(29,979)	32,025
Change in allowance for doubtful accounts	(105,450)	-
Increase (Decrease) in Cash Resulting from Changes in:		
Accounts Receivable	(24,965)	6,941
Pledges Receivable	182,276	87,300
Prepaid Expenses and Other Assets	(55,144)	(51,220)
Liquor License	-	1,537
Accounts Payable	(86,751)	241,624
Accrued Expenses and Other Liabilities	52,088	(27,955)
Deferred Revenue	151,192	(102,507)
Net Cash Provided By Operating Activities	1,226,524	68,248
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(401,237)	(1,702,305)
Proceeds from Sale of Real Property	750	323,308
Net Cash Used in Investing Activities	(400,487)	(1,378,997)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Capital Campaign Pledges	471,867	627,459
Changes in Capital Campaign Pledges Receivable	19,400	(81,919)
Proceeds from Line of Credit	50,000	3,126,250
Repayments on Notes Payable	(470,187)	(893,627)
Payments on Line of Credit	(50,000)	(1,800,000)
Net Cash Provided By Financing Activities	21,080	978,163
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	847,117	(332,586)
Cash and Cash Equivalents - Beginning of Year	158,952	491,538
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,006,069	$ 158,952

(Continued)

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
SUPPLEMENTAL INFORMATION		
Interest Paid	$ 124,443	$ 130,547
In-Kind Contributions	$ 89,012	$ 337,760
In-Kind Contribution of Facility Space	$ 547,600	$ 547,600
In-Kind Contribution of Utilities	$ 68,547	$ 68,547
SUMMARY OF CASH ACCOUNTS		
Operating	$ 6,141	$ 158,952
Artistic Reserve	500,619	-
Facility Reserve	-	-
Working Capital Reserve	499,309	-
Total Cash and Cash Equivalents - End of Year	$ 1,006,069	$ 158,952

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Phoenix Theatre, Inc., (the 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.

During 2015, the Theatre established Phoenix Theatre Real Estate, LLC (Subsidiary) as a separate entity to hold apartments that were purchased for actor housing. The Theatre is the sole member of the Subsidiary.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Theatre and Subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated 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 consolidated 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, 2016 and 2015, there was no allowance for doubtful accounts recorded as management believes all accounts receivable balances were collectible.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

	Years
Buildings and Improvements	15 to 28
Furniture and Equipment	3 to 15
Vehicles	7

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016 and 2015.

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 10).

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.

Revenue

Performance revenue is recorded from ticket sales for performances and is recognized in the period the performance is presented. Academy (summer camp) revenue is recorded in the month in which the students attend classes.

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 consolidated statements of activities and changes in net assets as net assets released from restrictions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated financial statements.

Advertising

Advertising costs are expensed when incurred.

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.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 consolidated financial statement presentation with no effect on previously reported 2015 net assets or changes in net assets.

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 Subsidiary is a disregarded entity for income tax reporting purposes since it has only one member.

The Theatre and subsidiary have no uncertain tax positions as of June 30, 2016 and 2015.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2016	
	Capital Campaign	Program Related
Pledges Receivable Before Unamortized Discount	$ 1,273,202	$ 142,650
Less Unamortized Discount	(17,330)	(396)
Total	1,255,872	142,254
Less Allowance for Uncollectibles	(25,500)	-
Pledges Receivable, Net	$ 1,230,372	$ 142,254
Amounts due in:		
Less than One Year	$ 392,297	$ 102,650
One to Five Years	880,905	40,000
Total	$ 1,273,202	$ 142,650

	2015	
	Capital Campaign	Program Related
Pledges Receivable Before Unamortized Discount	$ 1,764,469	$ 350,426
Less Unamortized Discount	(46,427)	(1,278)
Total	1,718,042	349,148
Less Allowance for Uncollectibles	(46,800)	(109,650)
Pledges Receivable, Net	$ 1,671,242	$ 239,498
Amounts Due in:		
Less than One Year	$ 571,531	$ 290,426
One to Five Years	1,192,938	60,000
Total	$ 1,764,469	$ 350,426

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, 2016 and 2015, the discount rate was 1.00% and 1.63%, respectively. One capital pledge accounted for 90% of the capital related pledge receivable balance as of June 30, 2016. One capital related pledge account for 86% of the capital related pledge receivable balance as of June 30, 2015. The capital campaign pledges receivable are reflected as long-term assets as the amounts collected are to be expended on long term assets.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Building and Improvements	$ 2,563,788	$ 2,545,752
Furniture and Equipment	2,096,244	1,746,851
Computer Equipment and Software	224,238	223,291
Vehicles	85,625	57,282
Total	4,969,895	4,573,176
Less Accumulated Depreciation and Amortization	(2,336,186)	(2,095,492)
Property and Equipment, Net of Accumulated Depreciation and Amortization	$ 2,633,709	$ 2,477,684

Depreciation and amortization expense charged to operations was $242,727 and $177,602 during the years ended June 30, 2016 and 2015, 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 10 for details.

NOTE 4 NOTES PAYABLE

During fiscal year 2015, the Subsidiary took out a term loan with Wells Fargo to finance the purchase of apartments for the purpose of actor housing. The Note payable matures December 1, 2019. Interest is payable monthly at 4.50%. There was a balance of $983,642 as of June 30, 2016.

In October 2014, the Theatre refinanced two lines of credit with a term loan with Wells Fargo. The Note payable matures March 31, 2020 with interest due monthly at 5.0% and annual principal payments. There was a balance of $1,000,000 as of June 30, 2016.

During fiscal year 2014, the Theatre took out a term loan with Wells Fargo to finance equipment for the new theatre. The Note payable matures March 31, 2017. Interest is payable monthly at 4.3%. There was a balance of $114,481 as of June 30, 2016.

NOTE 4 NOTES PAYABLE (CONTINUED)

Notes payable consists of the following:

Description	2016	2015
Note payable to bank; due in monthly installments of $12,973, including interest at 4.13%, due March 31, 2017. (Capital Campaign)	$ 114,481	$ 261,718
Note payable to bank with original amount of $1,800,000; due in monthly interest payments and annual principal payments, including interest at 5.25%, due March 31, 2020; collateralized by real property. (Capital Campaign)	1,000,000	1,300,000
Note payable to a bank; due in monthly installments of $5,704, including interest at 4.50%, due December 1, 2019; collateralized by real property. (Apartments)	983,642	1,006,592
Total	2,098,123	2,568,310
Less Current Maturities	(438,536)	(470,102)
Note Payable, Less Current Maturities	$ 1,659,587	$ 2,098,208

Future maturities of the note payable are as follows:

Year Ending June 30,	Amount
2017	$ 438,536
2018	225,177
2019	226,350
2020	1,208,060
2021	-
Total	$ 2,098,123

The note payable agreements require several financial ratios be maintained at levels stipulated in the note payable agreements. For the years ended June 30, 2016 and 2015, management believes the Theatre was in compliance with the ratios described in the note payable agreements.

NOTE 5 LINES OF CREDIT

During 2015, the Theatre obtained financing in the form of a note with total principal of $1,800,000 and interest rate of 5.25%, of which part of the proceeds was used to pay the lines of credit outstanding in full (see Note 4). The Theatre had no outstanding balance on the line of credit at June 30, 2016 and 2015.

NOTE 6 BOARD DESIGNATED

During 2016, Board of Directors of the Theatre designated funds (reserves) that consist of the following at June 30, 2016:

	Artistic Reserve	Facility Reserve	Working Capital Reserve	Total
Board Designated Funds, Beginning Balance	$ -	$ -	$ -	$ -
Contributions	500,000	-	499,329	999,329
Expenditures	(10)	-	(20)	(30)
Income	629	-	-	629
Board Designated Funds, Ending Balance	$ 500,619	$ -	$ 499,309	$ 999,928

The Artistic Risk Reserve Enhancement Fund was created with the intent to allow the Theater to take advantage of artistic opportunities, fund larger scale productions that present artistic risk, experiment with new theatrical forms, initiate multiyear development of new works, and take on unique artistic and technical challenges with plays or musicals that are remarkable in scope and/or scale with confidence.

The Facility Reserve Fund shall be used for the purpose of equipment acquisition to replace aging equipment or acquire new equipment and/or technology, as well as building upgrades.

The Working Capital Reserve Fund was created with the intent to build and maintain an adequate level of unrestricted net assets to support the Organization’s day-to-day operations in the event of unforeseen shortfalls. The Fund may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2016	2015
Program Restrictions	$ 307,236	$ 90,000
Capital Campaign Pledges Receivable and Restricted Cash	1,255,872	1,718,042
Time Restrictions	116,595	308,989
Donated Facility Space Receivable	12,067,810	12,212,537
Donated Utility Allowance Receivable	1,510,614	1,528,730
Total	$ 15,258,127	$ 15,858,298

Net assets of $1,365,962 and $1,149,868 were released from restriction during 2016 and 2015, respectively.

NOTE 8 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, 2016 and 2015.

NOTE 9 OPERATING LEASES

The Theatre leases office equipment under an operating lease agreement that expires on July 2015. Minimum future payments under this non-cancelable operating lease after June 30, 2016, are as follows:

Year Ending June 30,	Amount
2017	$ 8,364
2018	8,364
2019	4,879
Total Minimum Future Rental Payments	$ 21,607

Total rental expense for operating leases with terms in excess of one month was approximately $16,100 during the years ended June 30, 2016 and 2015.

NOTE 10 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, 2016 and 2015. 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 10 FACILITIES OPERATING LEASE (CONTINUED)

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

	2016	
	Donated Facility Space Receivable	Utility Allowance Receivable
Receivable Amount Before Unamortized Discount	$ 21,904,000	$ 2,741,880
Less Unamortized Discount	(9,836,190)	(1,231,266)
Total	$ 12,067,810	$ 1,510,614
Amounts Due in:		
Less than One Year	$ 547,600	$ 68,547
Over One Year	21,356,400	2,673,333
Total	$ 21,904,000	$ 2,741,880

	2015	
	Donated Facility Space Receivable	Utility Allowance Receivable
Receivable Amount Before Unamortized Discount	$ 22,451,600	$ 2,810,427
Less Unamortized Discount	(10,239,063)	(1,281,697)
Total	$ 12,212,537	$ 1,528,730
Amounts Due in:		
Less than One Year	$ 547,600	$ 68,547
One to Five Years	21,904,000	2,741,880
Total	$ 22,451,600	$ 2,810,427

NOTE 11 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, 2016. The Theatre does not have any unfunded liabilities associated with this retirement plan.

NOTE 12 RELATED PARTY TRANSACTIONS

In December 2007, the Theatre entered into a box office, ticketing services and rental fee sharing agreement(s) with Playhouse on the Park, LLC, formerly 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 50% 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 50% 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 $6,818 and $7,269 and for the years ended June 30, 2016 and 2015, respectively. Furthermore, for both the years ended June 30, 2016 and 2015, there was $-0- in accounts receivable due to this relationship.

NOTE 13 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, 2016 and 2015, a portion of cash balances exceeded the balance insured by the FDIC.

NOTE 14 CONCENTRATION OF PLEDGE RECEIVABLE RISK

The Organization received approximately 46% of its revenue from one contributor during the year ended June 30, 2016. Approximately 90% of the capital campaign pledge balance was due from one contributor as of June 30, 2016.

NOTE 15 SUBSEQUENT EVENTS

Management evaluated subsequent events through November 15, 2016, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to November 15, 2016, that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the consolidated financial statements for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2016.