Financial Reports

THE PHOENIX THEATRE COMPANY

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2021

Henry+Horne

THE PHOENIX THEATRE COMPANY AND SUBSIDIARY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Phoenix Theatre Company and Subsidiary
Phoenix, Arizona

We have audited the accompanying consolidated financial statements of The Phoenix Theatre Company and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of August 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Phoenix Theatre Company and Subsidiary as of August 31, 2021, 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.

Henry + Horne, LLP

Tempe, Arizona
March 4, 2022

THE PHOENIX THEATRE COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
August 31, 2021

ASSETS	
Cash and cash equivalents	$ 4,789,431
Accounts receivable	20,598
Employee Retention Credit receivable	635,292
Promises to give	155,380
Prepaid expenses	342,900
Donated facility space receivable, current portion	547,600
Donated utility allowance receivable, current portion	68,547
TOTAL CURRENT ASSETS	6,559,748
ASSETS RESTRICTED FOR LONG-TERM PURPOSES	
Promises to give, net of allowance and discount	3,938,119
OTHER ASSETS	
Investments	60,000
Costume inventory	60,353
Liquor license	73,127
Property and equipment, net	4,043,710
Donated facility space receivable, net	10,721,734
Donated utility allowance receivable, net	1,342,116
TOTAL ASSETS	$ 26,798,907
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 246,105
Accrued expenses	142,257
Deferred revenue	2,011,357
Deferred conditional contribution	2,434,598
Notes payable, net of current portion	112,827
TOTAL CURRENT LIABILITIES	4,947,144
NOTES PAYABLE, less current portion	2,625,052
TOTAL LIABILITIES	7,572,196
NET ASSETS	
Without donor restrictions	
Board-designated reserves	2,083,717
Undesignated	(66,790)
	2,016,927
With donor restrictions	17,209,784
TOTAL NET ASSETS	19,226,711
TOTAL LIABILITIES AND NET ASSETS	$ 26,798,907

See accompanying notes.

THE PHOENIX THEATRE COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended August 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Ticket sales and handling fees	$ 1,933,656	$ -	$ 1,933,656
Government grants	869,605	-	869,605
Employee Retention Credit income	1,461,895	-	1,461,895
Contributions	1,660,855	3,015,819	4,676,674
In-kind contributions	458,659	-	458,659
Special event contributions	237,198	-	237,198
Camp revenue	173,852	-	173,852
Rental income	68,403	-	68,403
Miscellaneous income	125,892	-	125,892
Net assets released from restrictions	343,127	(343,127)	-
	7,333,142	2,672,692	10,005,834
Special Events:			
Special events revenue	239,639	-	239,639
Direct donor benefits	(67,521)	-	(67,521)
	172,118	-	172,118
TOTAL REVENUES AND SUPPORT	7,505,260	2,672,692	10,177,952
EXPENSES			
Program services	4,690,411	-	4,690,411
General and administrative	1,600,178	-	1,600,178
Fundraising	432,619	-	432,619
TOTAL EXPENSES	6,723,208	-	6,723,208
CHANGE IN NET ASSETS	782,052	2,672,692	3,454,744
NET ASSETS, BEGINNING OF YEAR	1,234,875	14,537,092	15,771,967
NET ASSETS, END OF YEAR	$ 2,016,927	$ 17,209,784	$ 19,226,711

THE PHOENIX THEATRE COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2021

	Program Services	General and Administrative	Fund-Raising	Direct Donor Benefit	Total
Salaries	$1,455,052	$ 727,526	$ 242,509	$ -	$ 2,425,087
Employee benefits and payroll taxes	154,494	75,102	25,260	-	254,856
Total personnel costs	1,609,546	802,628	267,769	-	2,679,943
Bad debt expense	13,304	-	-	-	13,304
Bank fees	75,791	2,058	-	-	77,849
Education expense	6,120	-	-	-	6,120
Food and beverages	78,203	-	-	28,086	106,289
Insurance	119,057	33,903	12,608	-	165,568
Interest	100,813	-	-	-	100,813
Marketing and advertising	-	494,384	-	-	494,384
Miscellaneous expenses	86,262	64,652	46,956	6,730	204,600
Office expenses	763	26,616	-	-	27,379
Postage and printing	27,960	1,828	-	-	29,788
Production contractors	760,550	-	-	14,148	774,698
Production materials	362,123	-	-	-	362,123
Professional services	89,900	25,760	-		115,660
Rent and lease expense	478,865	56,337	55,169	18,479	608,850
Repairs and maintenance	154,623	17,325	8,662	-	180,610
Royalties	175,307	-	-	78	175,385
Supplies	7,016	-	-	-	7,016
Technology	143,632	17,736	18,726	-	180,094
Travel	14,189	11,494	-	-	25,683
Utilities	157,157	18,489	9,245	-	184,891
Depreciation	229,230	26,968	13,484	-	269,682
TOTAL FUNCTIONAL EXPENSES	4,690,411	1,600,178	432,619	67,521	6,790,729
Direct donor benefit	-	-	-	(67,521)	(67,521)
TOTAL EXPENSES	$ 4,690,411	$ 1,600,178	$ 432,619	$ -	$ 6,723,208

See accompanying notes.

THE PHOENIX THEATRE COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended August 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 3,454,744
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	269,682
Donated facility space rent expense	547,600
Donated utility allowance	68,547
Amortization of discount for donated facility and utilities	(424,613)
Forgiveness of Paycheck Protection Program loan	(818,200)
Change in discount on promises to give	90,819
Change in operating assets and liabilities:	
Receivables	(637,566)
Promises to give	(82,020)
Prepaid expenses	(112,859)
Accounts payable	135,403
Accrued expenses	(10,277)
Deferred revenue	308,763
Deferred conditional contribution	2,434,598
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	5,224,621
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(291,118)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(291,118)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Centennial campaign pledges	394,751
Centennial campaign promises to give	(3,000,000)
Proceeds from notes payable	598,000
Principal payments on notes payable	(98,302)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(2,105,551)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,827,952
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,961,479
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,789,431
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	$ 100,813
Other in-kind contributions	$ 34,046

See accompanying notes.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Phoenix Theatre Company and Subsidiary (collectively, the "Theatre") is an Arizona not-for-profit corporation that was founded in 1920 and incorporated in 1945. Its stated purpose is to create exceptional theatrical experiences by using the arts to articulate messages that inspire hope and understanding. The Theatre is a multifaceted organization whose charitable endeavors extend to over 500 performances each year, apprenticeship programs, theatre classes and workshops, theatre camps for children, and the Partners that Heal program. One of the Theatre's objectives is the sustainability of theatre which includes everything from preparing the next generation of actors, set builders, costume designers, etc., to developing new plays and musicals. The Theatre's support comes primarily from admissions, fundraising events and contributions from individuals and corporations in the Phoenix metropolitan area.

Basis of Presentation

The consolidated financial statements of the Theatre have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Phoenix Theatre Company and Phoenix Theatre Real Estate, LLC (the Subsidiary) which was established to hold apartment real estate that was purchased for actor housing. The Phoenix Theatre Company is the sole member of the Subsidiary. All significant interorganizational transactions have been eliminated in the consolidation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Theatre considers all highly liquid investments with maturities of ninety days or less at date of acquisition to be cash equivalents.

Accounts Receivable

Accounts receivable is carried at the outstanding balances less an allowance for doubtful accounts. If applicable, the Theatre evaluates the collectability of its receivables based on a combination of factors. In circumstances where it is aware of a specific inability to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible. At August 31, 2021, accounts receivable is considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been recorded.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise it received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises to give that are 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 the estimated future cash flows. The discounts on those amounts are computed using interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contribution income. In circumstances where the Theatre is aware of a specific inability by a donor to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible. Conditional promises to give are recognized when the conditions on which they depend in order to be entitled to the funds are substantially met.

Investments

Investments consist of common stock and are using the measurement alternative where the carrying value is adjusted up or down for observable price changes in orderly transactions for identical or similar investments and for impairment, if any. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends less external investment expenses) is included in the change in net assets in the statement of activities.

Costume Inventory

Inventory consists of costumes which are recorded at cost.

Property and Equipment

Acquisitions of property and equipment in excess of $500 are capitalized. Property and equipment is stated at cost, or if donated, at the approximate fair value at the date of gift to the Theatre. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

NOTE 1 NATURE OF OPERATIONS AND 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.

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 rent and utility costs. The discount on these balances was computed using an interest rate of 3.25%, as determined by management. Amortization of the discount is included in contribution income.

Revenue Recognition and Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers,* which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an organization should recognize revenue to reflect the transfer of goods and services in an amount equal to the consideration the organization receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2019. The Theatre adopted ASC 606 with a date of initial application of September 1, 2020.

The majority of the Theatre’s revenue arrangements consist of a single performance obligation to transfer promised goods or services. Based on the Theatre’s evaluation of its contracts with patrons and donors, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Change in Accounting Principle (Continued)

Earned revenues where performance obligations are satisfied at a point in time with a single performance obligation consist of ticket sales and handling fees, fees for camps and workshops, sales of merchandise, food and beverages, and rental income. Payment for these services is due in advance of the performance, at the time the goods and services are transferred, or in advance of the rental month. Earned revenue is recognized in the period that the related production takes place, in the period the sale takes place, and in the period the rental space is provided and used. Any amounts from ticket sales received in advance of the period of the production are recorded as contract liabilities (deferred revenue). The beginning contract liabilities balance as of August 31, 2020 was $1,702,594 and the ending contract liabilities balance as of August 31, 2021 was $2,011,357.

Contributions

Contributions received are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. If the donor restriction is met or expires in the same year the contribution was received, the amount is classified as support without donor restrictions.

Conditional contributions are recognized as income in the period the conditions are substantially met. The Shuttered Venue Operators Grant (SVOG) funding is recorded as a deferred conditional contribution as the conditions had not yet been met as of August 31, 2021. The Employee Retention Credit (ERC) funding is a conditional contribution that was recognized as income during the year ended August 31, 2021 due to the conditions being met in that period.

In-kind Contributions

Contributions of donated non-monetary assets (in-kind donations) are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Marketing Expenses

The Theatre uses marketing primarily to promote its performances among the audience it serves. Marketing is expensed as incurred. Marketing expense was approximately $494,000 for the year ended August 31, 2021.

Functional Allocation of Expenses

Expenses are charged to program services, general and administrative, and fundraising categories based on direct expenditures incurred. Any expenditures not directly chargeable are allocated based on personnel activity, square footage, and other appropriate indicators. Certain employee positions are allocated based on time and effort. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Net Assets

The Theatre reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for various reserve funds as described in Note 12.

- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Income Tax Status

The Theatre qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for income taxes. In addition, the 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 under Section 509(a)(2). The Subsidiary is a disregarded entity for tax purposes.

The Theatre recognizes uncertain tax positions in the consolidated financial statements when it is more-likely-than-not the positions will not be sustained upon examination by the tax authorities. At August 31, 2021, the Theatre had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status (Continued)

The Theatre recognizes interest and penalties associated with income taxes in operating expenses. During the year ended August 31, 2021, the Theatre did not have any income tax related interest and penalty expense.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

In preparing these consolidated financial statements, the Theatre has evaluated events and transactions for potential recognition or disclosure through March 4, 2022, the date the consolidated financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Theatre's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date are comprised of the following as of August 31, 2021:

Cash and cash equivalents	$ 4,789,431
Accounts receivable	655,890
Less: board designated reserves	(2,083,717)
Less: program restrictions	(436,289)
Financial assets available for expenditure	$ 2,925,315

Although the Theatre does not intend to spend from the board-designated reserves (other than amounts appropriated for general expenditure as part of the board's annual budget approval), these amounts could be made available, if necessary. In addition, the Theatre has a line of credit in the amount of $1,400,000 that they can draw on if necessary.

NOTE 3 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Theatre to potential concentrations of credit risk consist principally of cash and cash equivalents and promises to give. The Theatre maintains its cash in bank accounts, which at times may exceed federally insured limits. The Theatre has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

As of August 31, 2021, 89% of the total gross promises to give balance is made up of amounts due from two donors. Credit risk with respect to these balances is determined to be limited due to the Theatre's history and relationships with these donors.

NOTE 4 PROMISES TO GIVE

Promises to give consist of the following at August 31, 2021:

	Centennial Campaign	Program Related	Total
Gross promises to give	$ 4,071,899	$ 155,380	$ 4,227,279
Less: unamortized discount	(105,355)	-	(105,355)
Less: allowance for uncollectibles	(28,425)	-	(28,425)
Promises to give, net	$ 3,938,119	$ 155,380	$ 4,093,499
Amounts due in:			
Less than one year	$ 1,219,400	$ 155,380	$ 1,374,780
One to five years	2,852,499	-	2,852,499
Total	$ 4,071,899	$ 155,380	$ 4,227,279

The discount rate used to determine the present value of the promises to give balance is a rate considered appropriate for the expected repayment term. For the year ended August 31, 2021 the discount rate was 1.00%. The capital campaign promises to give are reflected as long-term assets as the amounts collected are restricted for the purchase of long-term assets.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following for the year ended August 31, 2021:

Building and improvements	$ 5,108,095
Furniture and equipment	1,274,163
Vehicles	252,293
Construction in progress	980,250
	7,614,801
Accumulated depreciation	(3,571,091)
Property and equipment, net	$ 4,043,710

Depreciation expense amounted to $269,682 for the year ended August 31, 2021.

The building 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. Construction in progress includes amounts incurred toward various facility improvements.

NOTE 6 DEFERRED CONDITIONAL CONTRIBUTION

During the year ended August 31, 2021, The Theatre received $2,434,598 in funding from the SVOG program, administered by the Small Business Administration. The SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and amended by the American Rescue Plan Act. Eligible recipients qualified for grants equal to 45% of gross earned revenue up to a maximum amount of $10 million. The funds may be used for ordinary and necessary business expenses that are not reimbursed by another source and that were incurred between March 1, 2020 and June 30, 2022. Funds can also be used for payments on debt that was incurred prior to February 15, 2020. This funding will be subject to a Single Audit under the Uniform Guidance in the fiscal year ending August 31, 2022. Grantees are required to maintain documentation demonstrating the use of the funds. The Theatre plans to use this funding against expenses incurred during the year ended August 31, 2022. The funding is recognized as a deferred conditional contribution on the consolidated statement of financial position as of August 31, 2021. This amount will be recorded as income when the conditions are substantially met.

NOTE 7 LINE OF CREDIT

The Theatre has a line of credit with a bank available in the amount of $1,400,000. The line of credit has a maturity date of May 24, 2022. Interest is payable monthly at 3% above the LIBOR rate. The line of credit is secured by all assets of the Theatre. There was no balance outstanding at August 31, 2021.

NOTE 8 NOTES PAYABLE

Notes payable consist of the following for the year ended August 31, 2021:

Note payable pursuant to the Paycheck Protection Program (PPP Loan) under Division A, Title I of the CARES Act. If not forgiven, monthly payments of principal and interest at a rate of 1.00% are due beginning in May 2023.	$	415,000
Note payable to a bank for equipment, due in monthly installments of $3,375 (including principal and interest) at a rate of 4% and maturing in September 2025.		152,082
Note payable to a bank for apartment building real estate, due in monthly installments of principal and interest in the amount of $12,801, including interest at 4%, with a balloon payment due at maturity on January 14, 2030.		2,020,797
Note payable pursuant to the COVID-19 Economic Injury Disaster Loan (EIDL) program, through the Small Business Administration. The EIDL note matures June 20, 2050, and bears interest at a rate of 2.75% with payments including principal and interest of $641 commencing June 20, 2021. The note is collateralized by all tangible and intangible personal property.		150,000
		2,737,879
Less: current maturities		(112,827)
Note payable, less current maturities	$	2,625,052

NOTE 8 NOTES PAYABLE (Continued)

Future maturities of the note payable were as follows:

Year Ending August 31,	Amount
2022	$ 112,827
2023	117,387
2024	122,131
2025	127,067
2026	94,368
Thereafter	2,164,099
	$ 2,737,879

In April 2020, the Theatre received a loan in the amount of $818,200 under the Paycheck Protection Program (PPP). In April 2021, the Theatre received a second draw loan in the amount of $415,000 under the PPP. The PPP, established as part of the Cornonavirus Aid, Relief, and Economic Security (CARES) Act, provides for funding to qualifying businesses for amounts up to 2.5 times the average monthly payroll costs incurred during the year prior to the loan date of the qualifying business. The total amount and accrued interest are forgivable after 24 weeks as long as the Theatre uses the proceeds for eligible purposes, including payroll costs, interest on mortgage obligations, rent and utilities. The amount of the forgiveness will be reduced if the Theatre reduces the number of employees or reduces salaries by more than 25% during the 24-week period beginning on the loan origination date. Any portion of the amount that is not forgiven will be required to be paid back over a 2-year period at an interest rate of 1%.

In June 2021, the Theatre received full forgiveness from the Small Business Administration relating to the first draw of PPP funding in the amount of $818,200, which is included in government grant income on the accompanying consolidated statement of activities. The balance of $415,000 from the second draw of PPP funding has not yet been forgiven as of August 31, 2021, however, the Theatre plans to apply for forgiveness and expects full forgiveness.

NOTE 9 EMPLOYEE RETENTION CREDIT

On March 27, 2020, in response to the COVID-19 pandemic, the U.S. Congress enacted the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which among other things, contains an employee retention credit (ERC). On December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law, which among other things, provides the retroactive ability for entities that received PPP loans to also obtain the ERC. The ERC allows, based on certain eligibility rules, for a credit against certain payroll taxes based on a percentage of wages paid to each employee commencing on March 13, 2020 and through September 30, 2021. Eligibility and the amount of the credit is determined on a quarter-by-quarter basis throughout 2020 and through the third quarter of 2021 based on various factors including, the number of full-time employees employed during 2019, whether there was a partial or full shutdown of the business due to government orders and/or whether a certain percentage decline of gross receipts occurred during each quarter in 2020 or 2021 versus the same quarter in 2019. The Theatre has determined that it has qualified for the credit for certain quarters in the available time period. As a result, the Theatre has recognized this wage credit in the amount of approximately $1,462,000 ass Employee Retention Credit income on the accompanying consolidated statement of activities. This income is a conditional contribution where the income is recognized when the conditions are substantially met. A balance of approximately $635,000 of this amount had not yet been paid to the Theatre as of August 31, 2021 and is included in Employee Retention Credit receivable on the accompanying consolidated statement of financial position.

NOTE 10 OPERATING LEASE COMMITMENTS

The Theatre leases office equipment under an operating lease agreement that expires in August 2024. Minimum future payments under this noncancelable operating lease after August 31, 2021 are as follows:

Year Ending August 31,	Amount
2022	$ 15,129
2023	15,129
2024	3,782
	$ 34,040

Total rental expense for operating leases with terms in excess of one month was approximately $16,000 during the year ended August 31, 2021.

NOTE 11 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 $547,600 during the year ended August 31, 2021.

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. The estimated value of the annual utility allowance was $68,547 during the year ended August 31, 2021.

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.

The donated facility space and utility allowance receivable consists of the following at August 31, 2021:

	Donated Facility Space Receivable	Utility Allowance Receivable
Receivable amount before unamortized discount	$ 19,111,240	$ 2,399,145
Less: unamortized discount	(7,841,906)	(988,482)
Total	$ 11,269,334	$ 1,410,663
Amounts due in:		
Less than one year	$ 547,600	$ 68,547
One to five years	10,721,734	1,342,116
Total	$ 11,269,334	$ 1,410,663

NOTE 12 BOARD DESIGNATED NET ASSETS

The board of directors of the Theatre have designated funds to establish three reserve funds, the Artistic Risk Reserve Enhancement Fund, the Facility Reserve Fund, and the Working Capital Reserve Fund.

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 multi-year 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 net assets without donor restrictions to support the Theatre’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.

The reserve funds consisted of the following at August 31, 2021:

	Working Capital Reserve	Facility Reserve	Artistic Reserve	Total
Board-designated funds-beginning balance	$ 901,131	$ 500,000	$ 383,093	$ 1,784,224
Designations	298,894	-	-	298,894
Expenditures	-	-	-	-
Income	25	-	574	599
Board-designated funds-ending balance	-	-	-	-
	$ 1,200,050	$ 500,000	$ 383,667	$ 2,083,717

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or time restrictions at August 31, 2021:

Subject to purpose restrictions:	
Hardes renovation	$ 66,580
Centennial campaign capital expenditures	369,708
Subject to time restrictions:	
Program pledges receivable	155,380
Subject to time and purpose restrictions:	
Donated facility space receivable	11,269,334
Donated utility allowance receivable	1,410,663
Centennial campaign promises to give	3,938,119
	$ 17,209,784

NOTE 14 EMPLOYEE RETIREMENT PLANS

During the year ended June 30, 2018, the Theatre implemented a defined contribution plan (the Plan) qualified under Section 401(k) of the IRC covering substantially all full-time employees. The Plan provides that employees who have attained the age of 21 and completed one year of service can voluntarily contribute a percentage of their salary to the Plan, up to the maximum contribution allowed by the Internal Revenue Service. Employer contributions to the Plan are discretionary and require board approval. The Theatre matches employee contributions up to 100% of the first 2% of deferrals, and vest at a graduated rate over four years of employment. During the year ended August 31, 2021, the Theatre matched employee voluntary contributions up to 100% of the first 2% of deferrals, resulting in contributions to the Plan of $22,575.

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 August 31, 2021. The Theatre does not have any unfunded liabilities associated with this retirement plan.

NOTE 15 RELATED PARTY TRANACTIONS

In December 2007, the Theatre entered into a box office, ticketing services and rental fee sharing agreement(s) with Playhouse on the Park, LLC (Playhouse), 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 Playhouse clients performing at Playhouse on the Park at Central Arts Plaza and Playhouse will have overlapping use of the Theatre's office equipment and staff support in booking the venue. Playhouse does not occupy or lease office space from, or at, the Theatre. The revenue share between Playhouse and the Theatre shall be at the rate of a 50% split of a 10% rental fee collected by Playhouse from all Playhouse clients at Playhouse on the Park. The 10% fee is calculated based on total rent charged to Playhouse.

Additionally, the revenue share between the Theatre and Playhouse shall be at the rate of a 50% split of all box office per ticket fee revenue charged to the ticket buyers by the Theatre on behalf of Playhouse 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. In fiscal year 2021 there were no shows held at the Playhouse due to the pandemic.