THE PHOENIX THEATRE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP
CLAconnect.com

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 comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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.

A member of Nexia International

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, 2018 and 2017, 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 16, 2018

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 999,990	$ 896,230
Accounts Receivable	28,160	12,493
Pledges Receivable, Net	53,930	90,800
Prepaid Expenses and Other Assets	350,410	239,060
Assets Held for Sale	45,000	-
Donated Facility Space Receivable, Current Portion	547,600	602,360
Donated Utility Allowance Receivable, Current Portion	68,547	68,547
Total Current Assets	2,093,637	1,909,490
PLEDGES RECEIVABLE, Net		
Less: Current Maturities and Unamortized Discount	5,000	-
ASSETS RESTRICTED FOR CENTENNIAL CAMPAIGN PLEDGES		
Receivable, Less: Allowance and Unamortized Discount	1,297,445	61,672
INVESTMENTS	432,953	170,464
COSTUME INVENTORY	60,353	60,353
LIQUOR LICENSE	73,127	73,127
PROPERTY AND EQUIPMENT, Net	2,581,062	2,616,779
DONATED FACILITY SPACE RECEIVABLE, Net	11,216,277	11,315,950
DONATED UTILITY ALLOWANCE RECEIVABLE, Net	1,404,021	1,423,352
Total Assets	$ 19,163,875	$ 17,631,187

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2018 AND 2017

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 204,816	$ 135,070
Accrued Expenses and Other Liabilities	392,707	224,624
Deferred Revenue	1,277,154	1,218,179
Current Maturities of Note Payable	26,350	25,177
Total Current Liabilities	1,901,027	1,603,050
NOTE PAYABLE, Less: Current Maturities	907,878	934,321
Total Liabilities	2,808,905	2,537,371
NET ASSETS		
Unrestricted, Includes Board-Designated Funds of $918,151 for 2018 and $799,023 for 2017	1,515,203	882,062
Temporarily Restricted	14,839,767	14,166,754
Permanently Restricted	-	45,000
Total Net Assets	16,354,970	15,093,816
Total Liabilities and Net Assets	$ 19,163,875	$ 17,631,187

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, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND PUBLIC SUPPORT				
Performance Programs	$ 4,275,812	$ -	$ -	$ 4,275,812
Ticket Servicing Revenue	293,337	-	-	293,337
Contributions	1,054,076	2,148,845	-	3,202,921
Special Events	432,100	-	-	432,100
Less: Direct Donor Expenses	(47,796)	-	-	(47,796)
Academy	232,641	-	-	232,641
Rental Income	157,337	-	-	157,337
In-Kind Contributions	297,284	-	-	297,284
Other Revenue	4,655	-	-	4,655
Net Assets Released from Restrictions	1,520,832	(1,475,832)	(45,000)	-
Total Revenues and Public Support	8,220,278	673,013	(45,000)	8,848,291
EXPENSES				
Program Services	4,895,921	-	-	4,895,921
Supporting Services:				
Management and General	1,866,123	-	-	1,866,123
Fundraising	827,591	-	-	827,591
Total Expenses	7,589,635	-	-	7,589,635
OTHER EXPENSES				
Gain on Disposal of Property and Equipment	2,498	-	-	2,498
Total Other Expenses	2,498	-	-	2,498
CHANGES IN NET ASSETS	633,141	673,013	(45,000)	1,261,154
Net Assets - Beginning of Year	882,062	14,166,754	45,000	15,093,816
NET ASSETS - END OF YEAR	$ 1,515,203	$ 14,839,767	$ -	$ 16,354,970

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES AND PUBLIC SUPPORT				
Performance Programs	$ 3,340,038	$ -	$ -	$ 3,340,038
Ticket Servicing Revenue	210,735	-	-	210,735
Contributions	691,856	764,550	-	1,456,406
Special Events	514,444	-	-	514,444
Less: Direct Donor Expenses	(50,507)	-	-	(50,507)
Academy	227,908	-	-	227,908
Rental Income	195,682	-	-	195,682
In-Kind Contributions	179,494	-	-	179,494
Other Revenue	21,621	-	-	21,621
Net Assets Released from Restrictions	1,855,923	(1,855,923)	-	-
Total Revenues and Public Support	7,187,194	(1,091,373)	-	6,095,821
EXPENSES				
Program Services	4,320,412	-	-	4,320,412
Supporting Services:				
Management and General	1,460,632	-	-	1,460,632
Fundraising	675,374	-	-	675,374
Total Expenses	6,456,418	-	-	6,456,418
OTHER EXPENSES				
Loss on Disposal of Property and Equipment	(574)	-	-	(574)
Total Other Expenses	(574)	-	-	(574)
CHANGES IN NET ASSETS	730,202	(1,091,373)	-	(361,171)
Net Assets - Beginning of Year	151,860	15,258,127	45,000	15,454,987
NET ASSETS - END OF YEAR	$ 882,062	$ 14,166,754	$ 45,000	$ 15,093,816

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

		Supporting Services		
	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,414,195	$ 526,271	$ 336,783	$ 3,277,249
Employee Benefits and Payroll Taxes	365,297	64,790	74,889	504,976
Total Personnel Costs	2,779,492	591,061	411,672	3,782,225
Education Activities	18,069	-	-	18,069
Bad Debt Expense (Recovery)	-	(15)	-	(15)
Bank Fees	-	149,595	-	149,595
Concessions	212,037	-	-	212,037
Fundraising	-	-	402,006	402,006
In-Kind Expense	394,769	-	-	394,769
Insurance	39,276	5,345	-	44,621
Interest	-	62,341	-	62,341
Miscellaneous	20,096	26,671	12,228	58,995
Production Materials	267,033	-	-	267,033
Production Travel and Housing	68,896	-	-	68,896
Professional Services	219,503	108,846	-	328,349
Program Marketing	-	771,244	-	771,244
Repairs and Maintenance	32,502	18,871	-	51,373
Royalties	384,499	-	-	384,499
Supplies	45,552	30,206	228	75,986
Travel and Housing	1,493	15,775	-	17,268
Special Event Expenses	-	-	47,796	47,796
Utilities	142,747	34,795	1,457	178,999
Total Expenses Before Depreciation and Amortization	4,625,964	1,814,735	875,387	7,316,086
Depreciation and Amortization	269,957	51,388	-	321,345
Total	4,895,921	1,866,123	875,387	7,637,431
Less: Expenses Netted Against Revenues on the Statement of Activities:				
Special Event Expenses	-	-	(47,796)	(47,796)
Total Expenses included in the Expense Section of the Statement of Activities	$ 4,895,921	$ 1,866,123	$ 827,591	$ 7,589,635

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

		Supporting Services		
	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,165,070	$ 474,090	$ 327,000	$ 2,966,160
Employee Benefits and Payroll Taxes	258,498	56,657	38,952	354,107
Total Personnel Costs	2,423,568	530,747	365,952	3,320,267
Education Activities	13,523	-	-	13,523
Bad Debt Expense (Recovery)	-	(7,306)	-	(7,306)
Bank Fees	-	125,981	-	125,981
Concessions	151,394	-	-	151,394
Fundraising	-	-	297,181	297,181
In-Kind Expense	362,882	-	-	362,882
Insurance	43,454	4,811	-	48,265
Interest	-	86,136	-	86,136
Miscellaneous	20,541	10,602	10,682	41,825
Production Materials	268,793	-	-	268,793
Production Travel and Housing	43,674	-	-	43,674
Professional Services	194,668	93,093	-	287,761
Program Marketing	-	485,955	-	485,955
Repairs and Maintenance	30,480	23,389	-	53,869
Royalties	297,330	-	-	297,330
Supplies	52,863	42,520	348	95,731
Travel and Housing	12,175	9,863	-	22,038
Special Event Expenses	-	-	50,507	50,507
Utilities	142,747	26,320	1,211	170,278
Total Expenses Before Depreciation and Amortization	4,058,092	1,432,111	725,881	6,216,084
Depreciation and Amortization	262,320	28,521	-	290,841
Total	4,320,412	1,460,632	725,881	6,506,925
Less: Expenses Netted Against Revenues on the Statement of Activities:				
Special Event Expenses	-	-	(50,507)	(50,507)
Total Expenses included in the Expense Section of the Statement of Activities	$ 4,320,412	$ 1,460,632	$ 675,374	$ 6,456,418

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	$ 1,261,154	$ (361,171)
Adjustments to Reconcile Changes in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	321,345	290,841
(Gain) Loss on Disposal of Real Property	(2,498)	574
Donated Facility Space Receivable, Net	154,433	149,500
Donated Utility Allowance Receivable, Net	19,331	18,715
Unrealized Gain on Investments	(114,507)	-
Change in Discount on Pledges Receivable	27,486	(17,490)
Change in Allowance for Doubtful Accounts	-	(4,125)
Increase (Decrease) in Cash Resulting from Changes in:		
Accounts Receivable	(15,667)	15,128
Pledges Receivable	31,870	51,850
Prepaid Expenses and Other Assets	(111,350)	26,528
Assets Held for Sale	(45,000)	-
Accounts Payable	69,746	(111,134)
Accrued Expenses and Other Liabilities	168,083	120,878
Deferred Revenue	58,975	103,722
Net Cash Provided by Operating Activities	1,823,401	283,816
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(147,982)	-
Proceeds from Sale of Property and Equipment	2,498	-
Purchases of Property and Equipment	(285,628)	(274,485)
Net Cash Used by Investing Activities	(431,112)	(274,485)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Centennial Campaign Pledges	538,257	1,019,455
Changes in Centennial Campaign Pledges Receivable	(1,801,516)	-
Repayments on Notes Payable	(25,270)	(1,138,625)
Net Cash Provided (Used) by Financing Activities	(1,288,529)	(119,170)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	103,760	(109,839)
Cash and Cash Equivalents - Beginning of Year	896,230	1,006,069
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 999,990	$ 896,230

(Continued)

See accompanying Notes to Consolidated Financial Statements.

THE PHOENIX THEATRE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
SUPPLEMENTAL INFORMATION		
Interest Paid	$ 62,341	$ 86,136
In-Kind Contributions	$ 297,284	$ 179,494
In-Kind Contribution of Facility Space	$ 547,600	$ 602,360
In-Kind Contribution of Utilities	$ 68,547	$ 68,547
Donated Stock	$ 112,700	$ 170,464
Donated Assets Held for Sale	$ 76,960	$ -
SUMMARY OF CASH AND CASH EQUIVALENT ACCOUNTS		
Operating	$ 81,839	$ 97,207
Working Capital Reserve	588,161	500,619
Artistic Reserve	329,990	298,404
Total Cash and Cash Equivalents - End of Year	$ 999,990	$ 896,230

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 nonprofit corporation under the laws of the state of Arizona.

The Theatre is a community oriented 501(c)(3) nonprofit 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, 2018 and 2017, there was no allowance for doubtful accounts recorded as management believes all accounts receivable balances were collectible.

Assets Held for Sale

Assets held for sale consist of donated retail products that the Theatre intends to sell. The assets are stated at the estimated sales value at the time of donation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments, consisting primarily of common stock, with readily determinable market values are measured at fair value as of year-end in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are recognized in the statements of activities and changes in net assets.

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:

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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, 2018 and 2017.

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 11).

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)

Centennial Campaign

The Centennial Campaign is committed to raising $20 million by 2020. Funds received through the Centennial Campaign are initially recorded as temporarily restricted net assets. Management's policy and allocation for release of the funds, unless explicitly determined from the donor, is as follows; the first $500 thousand received will supplement the working capital reserve fund and the artistic reserve fund, the next $13 million received will be used to fund bricks and mortar costs for theatre and building expansion, and the remaining $6.5 million will be used for furniture, fixtures and equipment, retirement of debt on the apartment building, as well as marketing, branding and other costs associated with launching the new theatre space.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The Phoenix Theatre, Inc. qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), 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 IRC 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, 2018 and 2017.

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Theatre uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

Fair value measurements framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Fair value measurements define levels within the hierarchy based on the reliability of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the nature and risks of the categories of assets by major security type.

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Corporate stock, and other funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

The Theatre also invests in the Arizona Community Foundation, Inc. (ACF) pool. The fair value of these investments is based on its investment percentage in the investment pool. The ACF pool is invested in cash, equity securities, bonds, and other investments. This investment is classified within Level 3 of the valuation hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although The Theatre believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2018:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Corporate Stock	$ 284,971	$ -	$ -	$ 284,971
Arizona Community Foundation	-	-	147,982	147,982
Total Investments	$ 284,971	$ -	$ 147,982	$ 432,953

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2017.

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Corporate Stock	$ 170,464	$ -	$ -	$ 170,464
Total Investments	$ 170,464	$ -	$ -	$ 170,464

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30:

	2018	2017
Balance - Beginning of Year	$ -	$ -
Contributions	150,000	-
Realized and Unrealized Gains (Losses)	(2,018)	-
Balance - End of Year	$ 147,982	$ -

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable consist of the following at June 30, 2018:

	Centennial Campaign	Program Related
Pledges Receivable Before Unamortized Discount	$ 1,345,092	$ 61,380
Less: Unamortized Discount	(27,722)	-
Total	1,317,370	61,380
Less: Allowance for Uncollectibles	(19,925)	(2,450)
Pledges Receivable, Net	$ 1,297,445	$ 58,930
Amounts Due in:		
Less than One Year	$ 699,933	$ 56,380
One to Five Years	645,159	5,000
Total	$ 1,345,092	$ 61,380

Pledges receivable consist of the following at June 30, 2017:

	Centennial Campaign	Program Related
Pledges Receivable Before Unamortized Discount	$ 83,283	$ 90,800
Less: Unamortized Discount	(236)	-
Total	83,047	90,800
Less: Allowance for Uncollectibles	(21,375)	-
Pledges Receivable, Net	$ 61,672	$ 90,800
Amounts Due in:		
Less than One Year	$ 68,758	$ 90,800
One to Five Years	14,525	-
Total	$ 83,283	$ 90,800

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, 2018 and 2017, the discount rate was 1.00% and 1.00%, respectively. Three capital pledges accounted for 77% of the capital related pledge receivable balance as of June 30, 2018. One capital related pledge accounted for 37% of the capital related pledge receivable balance as of June 30, 2017. The capital campaign pledges receivable are reflected as long-term assets as the amounts collected are to be expended on long-term assets.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Building and Improvements	$ 2,581,984	$ 2,563,788
Furniture and Equipment	2,532,861	2,273,299
Computer Equipment and Software	947	946
Vehicles	85,625	85,625
Total	5,201,417	4,923,658
Less: Accumulated Depreciation and Amortization	(2,620,355)	(2,306,879)
Property and Equipment, Net	$ 2,581,062	$ 2,616,779

Depreciation and amortization expense charged to operations was $321,345 and $290,841 during the years ended June 30, 2018 and 2017, 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 11 for details.

NOTE 5 NOTE 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 5.25%.

The note payable consists of the following:

	2018	2017
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)	$ 934,228	$ 959,498
Total	934,228	959,498
Less: Current Maturities	(26,350)	(25,177)
Note Payable, Less: Current Maturities	$ 907,878	$ 934,321

Future maturities of the note payable are as follows:

Year Ending June 30,	Amount
2019	$ 26,350
2020	907,878
Total	$ 934,228

The notes payable agreements require several financial ratios be maintained at levels stipulated in the notes payable agreements. For the years ended June 30, 2018 and 2017, management believes the Theatre was in compliance with the ratios described in the notes payable agreements.

NOTE 6 LINE OF CREDIT

The Theatre has a revolving line of credit of $500,000 and $400,000 available at June 30, 2018 and 2017, respectively. The line of credit is renewed annually, with a maturity date of December 1, 2018. Interest is payable monthly at 1.75% above the bank index rate. The line of credit is secured by inventory and equipment. There was no balance drawn on the line of credit at June 30, 2018 and 2017.

NOTE 7 BOARD DESIGNATED

During 2016, the board of directors of the Theatre 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 unrestricted net assets 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 June 30, 2018:

	Working Capital Reserve	Facility Reserve	Artistic Reserve	Total
Board-Designated Funds, Beginning Balance	$ 500,619	$ -	$ 298,404	$ 799,023
Contributions	375,245	-	56,499	431,744
Expenditures	(290,767)	-	(25,000)	(315,767)
Income	3,064	-	87	3,151
Board-Designated Funds, Ending Balance	$ 588,161	$ -	$ 329,990	$ 918,151

NOTE 7 BOARD DESIGNATED (CONTINUED)

The reserve funds consisted of the following at June 30, 2017:

	Working Capital Reserve	Facility Reserve	Artistic Reserve	Total
Board-Designated Funds, Beginning Balance	$ 500,619	$ -	$ 499,309	$ 999,928
Contributions	-	-	-	-
Expenditures	-	-	(201,042)	(201,042)
Income	-	-	137	137
Board-Designated Funds, Ending Balance	$ 500,619	$ -	$ 298,404	$ 799,023

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2018	2017
Program Restrictions	$ 247,106	$ 604,232
Centennial Campaign Pledges Receivable and Restricted Cash	1,297,445	83,047
Time Restrictions	58,771	69,266
Donated Facility Space Receivable	11,763,877	11,918,310
Donated Utility Allowance Receivable	1,472,568	1,491,899
Total	$ 14,839,767	$ 14,166,754

Net assets of $1,475,832 and $1,855,923 were released from restriction during 2018 and 2017, respectively.

NOTE 9 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 $- and $45,000 of permanently restricted net assets at June 30, 2018 and 2017, respectively.

NOTE 10 OPERATING LEASES

The Theatre leases office equipment under an operating lease agreement that expires in August 2019. Minimum future payments under this noncancelable operating lease after June 30, 2018 are as follows:

Year Ending June 30,	Amount
2019	$ 4,879
2020	4,879
Total Minimum Future Rental Payments	$ 9,758

Total rental expense for operating leases with terms in excess of one month was approximately $14,005 and $16,100 during the years ended June 30, 2018 and 2017, respectively.

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 in excess of $547,600 and $602,360 during the years ended June 30, 2018 and 2017 respectively.

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 11 FACILITIES OPERATING LEASE (CONTINUED)

The donated facility space and utility allowance receivable consists of the following at June 30:

	2018	
	Donated Facility Space Receivable	Utility Allowance Receivable
Receivable Amount Before Unamortized Discount	$ 20,754,040	$ 2,604,786
Less: Unamortized Discount	(8,990,163)	(1,132,218)
Total	$ 11,763,877	$ 1,472,568
Amounts Due in:		
Less than One Year	$ 547,600	$ 68,547
Over One Year	20,206,440	2,536,239
Total	$ 20,754,040	$ 2,604,786

	2017	
	Donated Facility Space Receivable	Utility Allowance Receivable
Receivable Amount Before Unamortized Discount	$ 21,356,400	$ 2,673,333
Less: Unamortized Discount	(9,438,090)	(1,181,434)
Total	$ 11,918,310	$ 1,491,899
Amounts Due in:		
Less than One Year	$ 602,360	$ 68,547
One to Five Years	20,754,040	2,604,786
Total	$ 21,356,400	$ 2,673,333

NOTE 12 EMPLOYEE RETIREMENT PLANS

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, 2018. The Theatre does not have any unfunded liabilities associated with this retirement plan.

NOTE 12 EMPLOYEE RETIREMENT PLANS (CONTINUED)

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 4 years of employment. During the years ended June 30, 2018 and 2017, the Theatre matched employee voluntary contributions up to 100% of the first 2% of deferrals, resulting in contributions to the Plan of $21,428 and $-0-, respectively

NOTE 13 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 (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 clients. 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. The total amount of revenue earned by the Theatre from this relationship was $12,481 and $8,506 for the years ended June 30, 2018 and 2017, respectively. Furthermore, for both the years ended June 30, 2018 and 2017, there was $-0- in accounts receivable due to this relationship.

NOTE 14 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, 2018 and 2017, a portion of cash balances exceeded the balance insured by the FDIC.

NOTE 15 CONCENTRATION OF PLEDGE RECEIVABLE RISK

The Theatre received approximately 36% and 34% of its revenue from two contributors during the years ended June 30, 2018 and 2017, respectively. Approximately 79% and 81% of the capital campaign pledge balance was due from two contributors as of June 30, 2018 and 2017, respectively. Approximately 73% and 77% of the pledges receivable balance was due from two and four contributors as of June 30, 2018 and 2017, respectively.

NOTE 16 NEW ACCOUNTING STANDARDS

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is expected to impact the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The guidance is required to be applied by the Theatre for the fiscal year ended June 30, 2019; however, early adoption is permitted. Management is evaluating the impact of the issued nonprofit standard on the entity's financial statements.

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the Theatre to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Theatre expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Theatre for the year ended June 30, 2020; however, early application is permitted. Management is evaluating the impact of the amended guidance for recognizing revenue on the entity's financial statements.

NOTE 17 SUBSEQUENT EVENTS

Management evaluated subsequent events through November 16, 2018, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to November 16, 2018, that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the consolidated financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, 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, 2018.

CliftonLarsonAllen

A member of Nexia International

Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.