CYGNET THEATRE COMPANY

FINANCIAL REPORT

June 30, 2012

WITH REPORT OF CERTIFIED PUBLIC ACCOUNTANT

RONALD E. GRUND, C.P.A., INC.

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INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS

Board of Directors
CYGNET THEATRE COMPANY

I have audited the accompanying statement of financial position of **Cygnet Theatre Company** as of June 30, 2012 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Cygnet Theatre Company** of June 30, 2012 and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ronald E. Grund CPA Inc

RONALD E. GRUND, C.P.A., INC.

September 17, 2012

CYGNET THEATRE COMPANY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(with combined fund totals for 2011)

	2012	2011
Cash (including $ 40,000 pledged as security for theatre lease)	$ 48,341.06	$ 64,067.59
Capital campaign pledges receivable	17,157.90	42,157.90
Accounts receivable	82,875.25	165,165.25
Prepaid expenses	94,493.46	44,460.65
Deposits	6,549.75	21,836.46
Property and equipment, net of accumulated depreciation	562,736.96	567,833.13
Total Assets	$ 812,154.38	$ 905,520.98
Liabilities:		
Note payable to bank	$ -	$ 39,999.00
Capitalized lease obligations	7,762.37	20,299.29
Accounts payable	158,617.86	104,816.80
Accrued vacation/payroll	36,171.12	12,257.50
Credit cards	2,139.93	2,039.59
Advance ticket sales	277,835.88	287,383.00
0% Notes payable to officers/directors	95,726.34	69,200.00
Total Liabilities	578,253.50	535,995.18
Commitments and contingencies		
Net Assets:		
Unrestricted	193,900.88	225,525.80
Temporarily restricted	40,000.00	144,000.00
Total Net Assets	233,900.88	369,525.80
Total Liabilities and Net Assets	$ 812,154.38	$ 905,520.98

SEE NOTES TO FINANCIAL STATEMENTS

CYGNET THEATRE COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(with combined fund totals for the year 2011)

	2012			2011
	UNRESTRICTED	**TEMPORARILY RESTRICTED**	**TOTAL**	**TOTAL**
SUPPORT AND REVENUE				
SUPPORT:				
CONTRIBUTIONS				
CASH	$ 440,259.85	$ -	$ 527,041.77	$ 527,041.77
IN KIND	-	-	59,799.49	59,799.49
FUND RAISING	88,471.00	-	57,330.00	57,330.00
TOTAL SUPPORT	528,730.85	-	644,171.26	644,171.26
REVENUE:				
TICKET SALES	1,047,619.33	-	1,047,619.33	1,028,854.85
CONCESSIONS AND OTHER	46,631.98	-	46,631.98	57,848.55
GOVERNMENT GRANTS	131,461.00	-	131,461.00	104,785.00
INVESTMENT INCOME	364.44	-	364.44	243.48
NET ASSETS RELEASED FROM RESTRICTIONS:				
SATISFACTION OF PROGRAM RESTRICTIONS	144,000.00	(144,000.00)	-	-
TOTAL REVENUE	1,370,076.75	(144,000.00)	1,226,076.75	1,191,731.88
TOTAL SUPPORT AND REVENUE	1,898,807.60	(144,000.00)	1,754,807.60	1,835,903.14
EXPENSES				
PROGRAM EXPENSES	1,811,032.64	-	1,811,032.64	1,716,967.64
FUND RAISING EXPENSES	119,399.88	-	119,399.88	115,192.13
TOTAL EXPENSES	1,930,432.52	-	1,930,432.52	1,832,159.77
INCREASE (DECREASE) IN NET ASSETS	(31,624.92)	(144,000.00)	(175,624.92)	3,743.37
NET ASSETS, BEGINNING OF THE YEAR	225,525.80	144,000.00	369,525.80	365,782.43
NET ASSETS, END OF THE YEAR	$ 193,900.88	$ -	$ 193,900.88	$ 369,525.80

SEE NOTES TO FINANCIAL STATEMENTS

CYGNET THEATRE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(with combined fund totals for 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (135,624.92)	$ 3,743.37
Adjustments to reconcile change in net assets to net cash provided by(used in) operating activities		
Depreciation	71,831.00	67,516.00
(Increase) decrease in operating assets:		
Accounts receivable	107,290.00	133,099.87
Other assets	(34,746.10)	(31,703.92)
Increase (decrease) in operating liabilities:		
Accounts payable	53,801.06	(78,790.36)
Accrued payroll/vacation	23,913.62	2,027.10
Advance ticket sales	(9,547.12)	44,503.87
Credit cards	100.34	(3,692.16)
Notes payable - officers/theatre supporters	26,526.34	(8,700.00)
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	103,544.22	128,003.77
CASH FLOWS USED IN CAPITAL/FINANCING ACTIVITIES		
Note payable to bank	(39,999.00)	(50,001.00)
Capitalized lease obligation (net of repayments)	(12,536.92)	(68,892.84)
Additions (disposals) of property and equipment (net)	(66,734.83)	(2,218.89)
NET CASH FLOWS USED IN CAPITAL/FINANCING ACTIVITIES	(119,270.75)	(112,112.73)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,726.53)	6,891.04
CASH AND CASH EQUIVALENTS :		
Beginning of the year	64,067.59	57,176.55
End of the year	$ 48,341.06	$ 64,067.59

SEE NOTES TO FINANCIAL STATEMENTS

CYGNET THEATRE COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(with combined fund totals for 2011)

	2012			2011
EXPENSE CATEGORY	**PROGRAM SERVICES**	**FUND RAISING**	**TOTAL**	**TOTAL**
COMPENSATION AND BENEFITS	$ 1,050,504.49	$ 73,419.15	$ 1,123,923.64	$ 1,016,772.98
PRODUCTION EXPENSES	225,306.19	-	225,306.19	188,857.61
ADVERTISING AND MARKETING	163,676.30	-	163,676.30	218,927.15
OCCUPANCY	142,534.76	-	142,534.76	131,511.66
COST OF CONCESSION SALES	12,465.25	-	12,465.25	11,008.46
OFFICE EXPENSE	6,471.14	-	6,471.14	10,872.92
BANK AND CREDIT CARD FEES	38,472.33	-	38,472.33	47,573.64
REPAIRS AND MAINTENANCE	15,962.17	-	15,962.17	13,608.03
BOX OFFICE EXPENSE	11,864.97	-	11,864.97	4,462.73
DEPRECIATION	71,831.00	-	71,831.00	67,516.00
INSURANCE	8,618.34	-	8,618.34	8,269.47
INTEREST EXPENSE	2,714.19	-	2,714.19	3,368.36
DUES AND SUBSCRIPTIONS	7,870.34	-	7,870.34	5,349.25
PROFESSIONAL SERVICES	5,070.88	-	5,070.88	4,925.00
FUND RAISING EXPENSES	-	45,980.73	45,980.73	54,212.24
TELEPHONE	7,764.75	-	7,764.75	11,524.67
TAXES AND LICENSES	2,921.32	-	2,921.32	235.24
COMPUTER EXPENSE	5,715.86	-	5,715.86	7,339.06
OTHER, MISCELLANEOUS	31,268.36	-	31,268.36	25,825.30
GRAND TOTAL	$ 1,811,032.64	$ 119,399.88	$ 1,930,432.52	$ 1,832,159.77

SEE NOTES TO FINANCIAL STATEMENTS

CYGNET THEATRE COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization:

Cygnet Theatre Company was incorporated in December 2002 under the laws of the State of California as a nonprofit public benefit corporation. Believing in the power of theatre to startle the soul, ignite, debate and embrace the diversity of the community in which it serves, the Company, is fearlessly committed to the dissection, examination and celebration of the human story through the medium of live theatre.

The Company promotes and produces live theatre performances in San Diego, California. In addition, the Company plans to establish a professional training program for local theatre artists who seek to improve their craft and skills in a professional environment under the mentorship of teachers recognized for their skills and experience. The Company's programs are funded by a combination of grants from governmental and private agencies, public donations and ticket sales.

A summary of the Company's significant accounting policies follows:

Adoption of new accounting standards:

In 2009 the FASB (Financial Accounting Standards Board) amended the current hierarchy of GAAP (generally accepted accounting principles) and identified the FASB ASC (Accounting Standards Codification) as the single source of GAAP recognized by the FASB. Although the FASB ASC did not change current GAAP, it superseded all existing standards applicable to the Company as of the effective date of the new standard The Company has accordingly, adopted the FASB ASC.

Method of accounting:

The accompanying financial statements have been prepared in accordance with the accrual method of accounting.

Subsequent events:
The Company has evaluated subsequent events through September 17, 2012 which is the date the financial statements were first available to be issued.

Financial statement presentation:

The Company complies with the FASB ASC in respect to its financial position and activities. The Company reports information regarding its financial position and activities according to its three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The combined fund information for the year 2011 has been extracted from the audited financial statements for the year ended June 30, 2011.

Contributions:

The Company complies with FASB ASC as to its accounting for contributions. Contributions are defined as an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of Its liabilities in a voluntary non-reciprocal transfer. Other assets in this connection include use of facilities (or utilities), services and unconditional promises to give these items in the future. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Generally contributions received, including unconditional promises to give, are recognized as revenues in the period received at fair value. In situations where promises to give are conditioned on the Company incurring certain qualifying expenses such promises become unconditional when the expenses are incurred. Accordingly, these revenues and costs are recognized as costs are incurred.

The Company reports grants, contracts, and gifts of cash and other assets as temporarily restricted support if they are received with stipulations that limit the use of the assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, the Company follows a practice of recording as unrestricted income all contributions (grants) where restrictions lapse in the same fiscal year in which they are received.

Cash and cash equivalents:

For purposes of reporting cash, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and equipment:

Property and equipment are recorded at cost for purchased assets and fair market value at the date of acquisition for donated assets. Property and equipment acquired with grant funds are considered to be owned by the granting agency and accordingly reflected as program expenditures and are not capitalized by the Company. Donations of assets are recorded as unrestricted support unless the donor stipulates a specific period over which the asset must be used by the Company.

Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

Special Events:

For special fund raising events, which are significant and ongoing, revenues and expenses are reported gross.

Donated services:

The Company follows the practice of recording donated services only in instances where non-financial assets are thereby created or enhanced or where services are provided which require specialized skills, are provided by such skilled individuals and would typically need to be purchased. In addition, the Company's programs and fund raising activities have benefited from the significant amounts of time donated by other volunteers; however, no accounting recognition has been given to these additional donated services.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments:

The recorded value of the Company's financial instruments approximates their fair values. Financial instruments include cash, accounts receivable and accounts payable.

Economic Concentrations:

The Company's operations are concentrated in San Diego County. Management is not aware of the existence of any severe or substantial cut backs pending due to the described concentrations of economic risk.

Note 2. Property and Equipment

Property and equipment are stated and cost and consists of the following:

Tenant improvements	$ 430,150.84
Equipment	477,288.58
Less : accumulated depreciation	(324,403.17)
Net property and equipment	$ 583,036.25

Note 3. Commitments and contingencies

The Company leases its office and rehersal facilities under month to month rental agreements. In addition, the Company has entered into a Concession Agreement with the State of California which requires percentage rentals of 3% on gross receipts against minimum annual rentals of $ 40,000 through 2018.

The Company receives funding from government agencies which is restricted under the terms of the related funding agreements. Expenditures are charged against these restricted funds are subject to audit by the funding agencies. It is possible future audits will result in expenditure disallowances; however, based on their knowledge of the funding agencies and the fact that no material cost disallowances have occurred in the past, management believes that any such disallowances will not be material.

Note 4. Notes Payable to Officers/Directors

At June 30, 2012 the Company is indebted to officers/directors in the amount of $ 95,726.34 for cash advances to the Company. The notes are non-interest bearing and are due in full by June 30, 2013.

Note 5. Pension Costs

The Company's employees are not covered by a Company sponsored pension plan.

Note 6. Income Tax Status

No provision for income taxes has been provided in the financial statements as the Company has qualified for exemption from income taxes under Federal and State Revenue Codes. The Company is subject to income taxes on unrelated business income, if any.)

Note 7. Supplementary information on Program Outputs (Measures of Performance)

The Company presents a year – long series of main stage productions that reflect a wide diversity of material drawn from comedies to dramas, cutting edge work to classical musicals, and the season typically includes artistically challenging plays that are not often seen in the San Diego community.

For the year ended June 30, 2012 the Company produced 7 main stage productions: *Little Shop of Horrors, The Glass Menagerie, Its a Wonderful Life, Behanding in Spokane, Parade, Ripples from Walden Pond and Dirty Blonde.*

In addition, the Company produced 5 independent staged readings. Included in the readings were new plays as part of our playwright in process series.

Total attendance for the main-stage season was 40,720.

Note 8. Affiliate Transactions

The capitalized lease obligation reflected in the statement of financial position is guaranteed by an officer of the Company.

Note 9 Capitalized Lease Obligations

These obligations are repayable in with monthly payments $ 705.67 through May 31, 2013.

Note 10 Temporarily Restricted and Permanently Restricted Net Assets

At June 30, 2012 the Company has no permanently restricted net assets. Temporarily restricted net assets of $ 40,000 are earmarked for expenditures if fiscal 2013.