

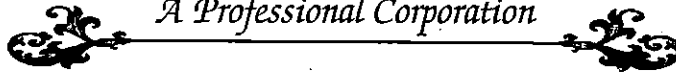
Cygnets Theatre Company
Financial Statements
and Independent Auditor's Report
For the Year Ended June 30, 2017

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A. M. Owens & Co., CPA

A Professional Corporation



9880 N. Magnolia Ave., #188 Santee, California 92071 Phone (619) 698-2401 Fax (619) 698-1577

Board of Directors
Cygnet Theatre Company

INDEPENDENT AUDITOR'S REPORT

Dear Members of the Board:

Report on the Financial Statements

I have audited the accompanying financial statements of Cygnet Theatre Company (a non-profit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, expenses and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with generally accepted auditing standards 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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cygnet Theatre Company as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Report on Summarized Comparative Information

I have previously audited Cygnet Theatre Company's June 30, 2016 financial statements and I expressed an unmodified opinion on those financial statements in my report dated August 29, 2016. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, consistent, in all material respects, with the audited financial statements from which it has been derived.


A. M. Owens & Co., CPA
A Professional Corporation

San Diego, California
September 27, 2017

Cygnnet Theatre Company
Statement of Financial Position
June 30, 2017
(With Comparative Totals as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 64,806	\$ 66,514
Accounts receivable	342,773	220,864
Prepaid expenses	98,286	116,375
Deposits	28,802	22,420
	<hr/>	<hr/>
Total Current Assets	534,667	426,173
Property and equipment (net Note 2)	348,110	381,662
	<hr/>	<hr/>
Total Assets	\$ 882,777	\$ 807,835
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Accounts payable	\$ 172,479	\$ 139,800
Accrued wages and expense	27,143	27,649
Vacations payable	15,308	17,886
Advanced ticket sales (Note 3)	357,669	321,819
Current portion long term debt	33,951	54,420
Line of credit (Note 9)	120,315	0
	<hr/>	<hr/>
Total Current Liabilities	726,865	561,574
Long term debt less current portion (Note 10)	121,108	37,389
	<hr/>	<hr/>
Total Liabilities	847,973	598,963
NET ASSETS		
Unrestricted net assets	(13,674)	43,802
Temporarily restricted net assets	48,478	165,070
Permanently restricted net assets	0	0
	<hr/>	<hr/>
Total Net Assets	34,804	208,872
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 882,777	\$ 807,835
	<hr/> <hr/>	<hr/> <hr/>

See the Accompanying Notes to the Financial Statements.

Cygnnet Theatre Company
Statement of Activities
For the Year Ended June 30, 2017
(With Comparative Totals as of June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>2016</u>
SUPPORT AND REVENUE					
Contributions	\$ 1,036,727	\$ 0	\$ 0	\$ 1,036,727	\$ 985,002
Fundraising Events	214,568	0	0	214,568	243,344
Government Grants	0	197,094	0	197,094	150,237
Donated Services	68,728	0	0	68,728	41,650
Realized Investment Income (Loss)	147	0	0	147	(35)
Ticket Sales	1,324,178	0	0	1,324,178	1,123,935
Concession and other	79,333	0	0	79,333	98,404
	<u>2,723,681</u>	<u>197,094</u>	<u>0</u>	<u>2,920,775</u>	<u>2,642,537</u>
Net Assets Released from Restrictions	313,686	(313,686)	0	0	0
	<u>3,037,367</u>	<u>(116,592)</u>	<u>0</u>	<u>2,920,775</u>	<u>2,642,537</u>
EXPENSES					
Program	2,632,708	0	0	2,632,708	2,252,437
General and administrative	158,005	0	0	158,005	106,917
Fundraising	304,130	0	0	304,130	317,545
	<u>3,094,843</u>	<u>0</u>	<u>0</u>	<u>3,094,843</u>	<u>2,676,899</u>
Excess of Support and Revenue over (Expenses)	(57,476)	(116,592)	0	(174,068)	(34,362)
Net Assets at Beginning of Year	43,802	165,070	0	208,872	243,234
	<u>\$ (13,674)</u>	<u>\$ 48,478</u>	<u>\$ 0</u>	<u>\$ 34,804</u>	<u>\$ 208,872</u>

See the Accompanying Notes to the Financial Statements.

Cygnnet Theatre Company
Statement of Cash Flows
For the Year Ended June 30, 2017
(With Comparative Totals as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Excess of support and revenue over expenses	\$ (174,068)	\$ (34,362)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	53,688	65,949
(Increase) Decrease in operating assets		
Accounts Receivable	(121,909)	(97,969)
Prepaid expenses	18,089	(46,427)
Deposits	(6,382)	285
Increase (Decrease) in operating liabilities		
Accounts payable	32,679	55,164
Accrued Wages	(506)	10,391
Vacations Payable	(2,578)	(2,030)
Future Ticket Sales	35,850	6,240
Net cash provided (used) by operating activities	(165,137)	(42,759)
Cash flows from investing activities		
Purchase of property and equipment	(20,136)	(26,021)
Net cash provided (used) by investing activities	(20,136)	(26,021)
Cash flows from financing activities		
Repayment of line of credit	(82,985)	0
Repayment of long-term borrowings	(105,250)	(43,936)
New borrowings	371,800	0
Net cash provided (used) by financing activities	183,565	(43,936)
Net (decrease) increase in cash	(1,708)	(112,716)
Cash balances at beginning of year	66,514	179,230
Cash balances at end of year	\$ 64,806	\$ 66,514
Supplemental Information:		
Interest Paid	\$ 11,988	\$ 3,271
Taxes Paid	\$ 0	\$ 0

See the Accompanying Notes to the Financial Statements.

Cygnnet Theatre Company
Statement of Functional Expense
For the Year Ended June 30, 2017
(With Comparative Totals as of June 30, 2016)

	<u>Program</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total 2017</u>	<u>Total 2016</u>
Salaries	\$ 1,370,290	\$ 34,623	\$ 109,296	\$ 1,514,209	\$ 1,291,616
Employee-benefits	161,606	4,079	12,878	178,563	182,158
Payroll taxes	101,441	2,561	8,083	112,085	113,826
Donated services	68,728	0	0	68,728	41,650
Depreciation	53,076	612	0	53,688	65,949
Contract services	6,692	169	533	7,394	9,664
Production expenses	273,517	0	0	273,517	206,096
Occupancy	126,277	67,209	0	193,486	167,277
Supplies	3,074	4,557	0	7,631	10,435
Repairs and maintenance	27,108	8,238	0	35,346	27,512
Marketing and promotion	322,128	0	0	322,128	250,008
Printing and reproduction	2,995	8,688	5,220	16,903	17,740
Postage	1,849	0	4,199	6,048	2,011
Insurance	5,732	637	0	6,369	11,998
Professional fees	0	6,300	0	6,300	7,750
Service fees	66,540	0	0	66,540	55,587
Administrative	0	2,699	0	2,699	973
Volunteer/Staff devel.	2,984	5,545	0	8,529	12,148
Dues and subscriptions	4,502	0	0	4,502	5,287
Taxes/licenses/permits	1,902	100	0	2,002	2,118
Interest Expense	0	11,988	0	11,988	3,271
Cost of concessions	32,267	0	0	32,267	31,100
Special events	0	0	96,636	96,636	86,336
Special events - non cash items	0	0	67,285	67,285	74,389
Total Expenses	\$ 2,632,708	\$ 158,005	\$ 304,130	\$ 3,094,843	\$ 2,676,899

See the Accompanying Notes to the Financial Statements.

Cygnnet Theatre Company
Notes to Financial Statements
For the Year Ended June 30, 2017

Note 1 - Summary of Significant Accounting Policies

General

Cygnnet 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 Theatre is fearlessly committed to the dissection, examination and celebration of the human story through the medium of live theatre.

The Theatre presents a year-round season of seven Mainstage Productions in the 246-seat Old Town Theatre in San Diego, California. Approximately 40,000 patrons attend one of these productions.

Free matinees are also held. More than 830 students attend one of these free matinees. Cygnnet also holds workshops in schools around San Diego County. More than 870 students attend these free workshops.

Storytelling On The Green presented free, abridged classics, mainly by Shakespeare, to students and other State Park visitors six times a week, Storytelling reached approximately 8,000 students and other park visitors.

In 2016, Cygnnet launched a new Military Outreach Initiative, Cygnnet Serves. This program takes free touring productions and free theatre workshops to military bases and community centers as well as provides free tickets for military personnel, veterans and military families to attend a performance at Cygnnet.

Financial Statement Presentation

The Theatre is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the following criteria:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Center may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity to generate investment income.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Temporarily restricted net assets are reported in Note 4. There were no permanently restricted net assets at June 30, 2017.

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

Contributions (continued)

All donor-restricted contributions are reported as increases in temporarily or permanently restricted assets depending on the nature of the restriction. 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. Contributions in kind are recorded at their fair market value at the time of receipt.

Promises to Give

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets using the straight-line method.

Acquisitions of property and equipment in excess of \$500 are capitalized. Donated equipment is recorded at fair market value at the date of the donation. Purchased equipment is recorded at cost.

Ticket Sales

Ticket sales received prior to the fiscal year to which they apply are not recognized as revenues until the year earned.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Income Tax Status

The Theatre is classified as a Section 501(c) (3) Organization under the Federal Internal Revenue Code and Section 13.2210 (e) of the State Revenue and Taxation Code. As a result, it has been determined to be exempt from federal income and state franchise taxes. Tax years 2013-2015 are open to examination by taxing authorities.

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

Functional Expenses

Expenses related to more than one functional expense category are allocated based on reasonable estimates by the Theatre. Salaries, benefits and other related expenses are allocated based on job function. Directly identifiable expenses are charged to program support, management and general, or fundraising as applicable.

Donated Services

Donated services valued at \$68,728 are stated as revenue and as an offsetting expense to give accounting recognition to this significant resource of the Theatre. Such donated time is valued at \$10.50 per hour for July 1, 2016 through December 31, 2016 and \$11.50 per hour for January 1, 2017 through June 30, 2017.

The FASB issued authoritative guidance relating to fair value measurements which establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

The Theatre measures fair value at the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market and participants at the measure date. The guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values.

A summary of the fair value hierarchy under the authoritative guidance is described in Note 5.

Note 2 – Property and Equipment

The following is a summary of property and equipment, less accumulated depreciation and amortization at June 30, 2017:

	<u>2017</u>
Auto	\$ 1,538
Leasehold improvements	470,901
Furniture and equipment	545,627
	<hr/> 1,018,066
Accumulated depreciation and amortization	(669,956)
Property and Equipment - Net	<hr/> <hr/> \$ 348,110

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2017

Note 3 – Advanced Ticket Sales

The Theatre had received \$357,669 at June 30, 2017, on advance ticket sales for the next theater season. As each production is presented, the portion of the advance sales collections that pertains to that production will be recognized as revenue. In the event any of the scheduled productions for the season are not presented, the advance ticket collections for that production will be available for refund to the ticket holders.

Note 4 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2017:

	<u>2017</u>
Purpose Restrictions	
Military Outreach	\$ 48,478
	<hr/>
Total	\$ 48,478
	<hr/> <hr/>

Note 5 – Fair Value Measurements

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term if the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2017

Note 5 – Fair Value Measurements (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following details the level within the fair value hierarchy of the Society's assets as fair value as of June 30, 2017. Level 1 investments consist of equity securities and money market funds and totaled \$1,064. There were no Level 2 or Level 3 investments.

Investments at fair market value at June 30, 2017, consist of the following:

	Adjusted Cost	Fair Market Value	Fair Value (Level 1)	Fair Value (Level 2)
Equities (Level 1)				
Charles Schwab	\$ 1,021	\$ 1,021	\$ 1,021	\$ 0
Money Market Funds				
Charles Schwab	43	43	43	0

Investment return for the year ended June 30, 2017 included in the statements of activities is comprised of the following:

	2017
Realized and unrealized losses	\$ 51
Interest and dividends	96
	<u>\$ 147</u>

Note 6 – Cash and Equivalents

At June 30, 2017, cash was held in the following institutions:

Petty Cash	\$ 2,503
California Bank & Trust (3 accounts)	21,005
Wells Fargo (2 accounts)	43
Union Bank (2 accounts)	40,206
Charles Schwab (1 account)	1,064
	<u>\$ 64,821</u>

Concentration of Credit Risk

The Theatre maintains its cash in bank accounts and brokerage accounts which, at times, may exceed federally insured limits. The Theatre has not experienced any losses in such accounts. The Theatre believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts are insured by the FDIC for amounts up to \$250,000.

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2017

Note 7 – Operating Lease

The Theatre leases its office facility under a month-to-month rental agreement. The Theatre leases its rehearsal facility under a lease requiring monthly payments of \$2,850 through its expiration in July 2017. In addition, the Theatre 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 Theatre is currently in negotiations for a lease extension with the State. Total rental expense was \$119,475 for the year ended June 30, 2017.

Note 8 – Retirement Plan

The Theatre maintains a tax deferred contribution plan qualified under Section 401(K) of the Internal Revenue Code. Eligible employees may contribute a percentage of their compensation to the Plan. Employer contributions totaled \$11,814 for the year ended June 30, 2017.

Note 9 – Line of Credit

The Theatre has a \$125,000 line of credit at California Bank and Trust. The interest rate is variable at prime plus .75%. As of June 30, 2017, the outstanding principal amount was \$120,315.

Note 10–Long Term Debt

At June 30, 2017, the Theatre is indebted to officers/directors/major donors in the amount of \$155,059 for cash advances to the Theatre. The following are the terms of the advances:

Note payable, William Schmidt & Thomas Murray. Payable in monthly installments of \$1,521.10 principal plus interest at 6% per annum through July 2018.	\$ 9,656
Note payable, Carey Wall. Payable in monthly installments of \$1,298.19 principal plus interest at 6% per annum though November 2019.	34,965
Note payable, Pamela Richards. Payable in monthly installments of \$1,521.10 principal plus interest at 6% per annum though January 2018.	10,438
Note payable, Lipman. Payable in monthly installments of \$500.00 interest only at 6% with the principal due December 2019.	100,000
	<u>\$ 155,059</u>

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2017

Note 10-Long Term Debt (continued)

Maturity of long-term debt as of June 30, 2017 is as follows:

2018	\$	33,952
2019		14,712
2020		106,395
2021		0
2022		0

Note 11-Subsequent Events

Events subsequent to June 30, 2017 have been evaluated through September 27, 2017, the date these financial statements were available to be issued, to determine whether they should be disclosed to keep the financial statements from being misleading. Management is disclosing that as of the date of these financial statements, the Theatre has borrowed an additional \$50,000 in loans from Board members.