

Cygnets Theatre Company
Financial Statements
and Independent Auditor's Report
For the Year Ended June 30, 2018

Table of Contents

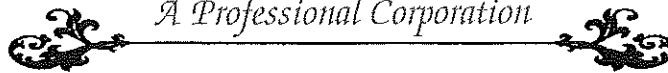
Independent Auditor's Report.....	1-2
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Financial Statements:

Statement of Financial Position.....	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses.....	6
Notes to the Financial Statements	7-13

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, 2018, 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, 2018, 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, 2018 financial statements and I expressed an unmodified opinion on those financial statements in my report dated September 27, 2017. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, consistent, in all material respects, with the audited financial statements from which it has been derived.

A. M. Owens & Co., CPA

A. M. Owens & Co., CPA

A Professional Corporation

San Diego, California
September 30, 2018

Cygnnet Theatre Company
Statement of Financial Position
June 30, 2018
(With Comparative Totals as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 67,607	\$ 64,806
Accounts receivable	384,707	342,773
Prepaid expenses	145,964	98,286
Deposits	38,402	28,802
	<hr/>	<hr/>
Total Current Assets	636,680	534,667
Property and equipment (net Note 2)	307,434	348,110
	<hr/>	<hr/>
Total Assets	\$ 944,114	\$ 882,777
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Accounts payable	\$ 176,468	\$ 172,479
Accrued wages and expense	31,692	27,143
Vacations payable	19,708	15,308
Advanced ticket sales (Note 3)	409,183	357,669
Current portion long term debt	31,016	33,951
Line of credit (Note 9)	121,881	120,315
	<hr/>	<hr/>
Total Current Liabilities	789,948	726,865
Long term debt less current portion (Note 10)	125,019	121,108
	<hr/>	<hr/>
Total Liabilities	914,967	847,973
NET ASSETS		
Unrestricted net assets	(1,367)	(13,674)
Temporarily restricted net assets	30,514	48,478
Permanently restricted net assets	0	0
	<hr/>	<hr/>
Total Net Assets	29,147	34,804
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 944,114	\$ 882,777
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See the Accompanying Notes to the Financial Statements.

Cygnnet Theatre Company
Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals as of June 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2018</u>	<u>2017</u>
SUPPORT AND REVENUE					
Contributions	\$ 970,139	\$ 35,000	\$ 0	\$ 1,005,139	\$ 1,036,727
Fundraising Events	246,310	0	0	246,310	214,568
Government Grants	0	197,922	0	197,922	197,094
Donated Services	107,571	0	0	107,571	68,728
Realized Investment Income (Loss)	251	0	0	251	147
Ticket Sales	1,150,015	0	0	1,150,015	1,324,178
Concession and other	83,717	0	0	83,717	79,333
	<u>2,558,003</u>	<u>232,922</u>	<u>0</u>	<u>2,790,925</u>	<u>2,920,775</u>
Net Assets Released from Restrictions	250,886	(250,886)	0	0	0
	<u>2,808,889</u>	<u>(17,964)</u>	<u>0</u>	<u>2,790,925</u>	<u>2,920,775</u>
EXPENSES					
Program	2,286,538	0	0	2,286,538	2,632,708
General and administrative	132,429	0	0	132,429	158,005
Fundraising	377,615	0	0	377,615	304,130
	<u>2,796,582</u>	<u>0</u>	<u>0</u>	<u>2,796,582</u>	<u>3,094,843</u>
Excess of Support and Revenue over (Expenses)	12,307	(17,964)	0	(5,657)	(174,068)
Net Assets at Beginning of Year	(13,674)	48,478	0	34,804	208,872
	<u>\$ (1,367)</u>	<u>\$ 30,514</u>	<u>\$ 0</u>	<u>\$ 29,147</u>	<u>\$ 34,804</u>

See the Accompanying Notes to the Financial Statements.

Cygnnet Theatre Company
Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Excess of support and revenue over expenses	\$ (5,657)	\$ (174,068)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	56,276	53,688
(Increase) Decrease in operating assets		
Accounts Receivable	(41,933)	(121,909)
Prepaid expenses	(47,678)	18,089
Deposits	(9,600)	(6,382)
Increase (Decrease) in operating liabilities		
Accounts payable	3,987	32,679
Accrued Wages	4,549	(506)
Vacations Payable	4,400	(2,578)
Future Ticket Sales	51,514	35,850
	<hr/>	<hr/>
Net cash provided (used) by operating activities	15,858	(165,137)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of property and equipment	(15,599)	(20,136)
	<hr/>	<hr/>
Net cash provided (used) by investing activities	(15,599)	(20,136)
	<hr/>	<hr/>
Cash flows from financing activities		
Repayment of line of credit	0	(82,985)
Repayment of long-term borrowings	(39,024)	(105,250)
New borrowings	41,566	371,800
	<hr/>	<hr/>
Net cash provided (used) by financing activities	2,542	183,565
	<hr/>	<hr/>
Net (decrease) increase in cash	2,801	(1,708)
Cash balances at beginning of year	64,806	66,514
	<hr/>	<hr/>
Cash balances at end of year	\$ 67,607	\$ 64,806
	<hr/> <hr/>	<hr/> <hr/>
Supplemental Information:		
Interest Paid	\$ 8,941	\$ 11,988
	<hr/> <hr/>	<hr/> <hr/>
Taxes Paid	\$ 0	\$ 0
	<hr/> <hr/>	<hr/> <hr/>

See the Accompanying Notes to the Financial Statements.

Cygnnet Theatre Company
Statement of Functional Expense
For the Year Ended June 30, 2018
(With Comparative Totals as of June 30, 2017)

	<u>Program</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total 2018</u>	<u>Total 2017</u>
Salaries	\$ 1,187,357	\$ 40,024	\$ 140,592	\$ 1,367,973	\$ 1,514,209
Employee benefits	146,633	4,943	17,362	168,938	178,563
Payroll taxes	114,136	3,847	13,515	131,498	112,085
Donated services	107,571	0	0	107,571	68,728
Depreciation	55,343	933	0	56,276	53,688
Contract services	12,072	407	1,429	13,908	7,394
Production expenses	184,516	0	0	184,516	273,517
Occupancy	119,509	45,630	0	165,139	193,486
Supplies	434	4,498	0	4,932	7,631
Repairs and maintenance	14,134	9,431	0	23,565	35,346
Marketing and promotion	203,848	0	0	203,848	322,128
Printing and reproduction	0	7,126	1,972	9,098	16,903
Postage	1,940	0	1,124	3,064	6,048
Insurance	9,771	1,086	0	10,857	6,369
Professional fees	240	4,563	0	4,803	6,300
Service fees	85,506	0	0	85,506	66,540
Administrative	0	0	0	0	2,699
Volunteer/Staff devel.	1,737	938	0	2,675	8,529
Dues and subscriptions	5,717	0	0	5,717	4,502
Taxes/licenses/permits	1,209	62	0	1,271	2,002
Interest Expense	0	8,941	0	8,941	11,988
Cost of concessions	34,865	0	0	34,865	32,267
Capital Campaign	0	0	4,486	4,486	
Special events	0	0	98,104	98,104	96,636
Special events - non cash items	0	0	99,031	99,031	67,285
Total Expenses	\$ 2,286,538	\$ 132,429	\$ 377,615	\$ 2,796,582	\$ 3,094,843

See the Accompanying Notes to the Financial Statements.

Cygnnet Theatre Company
Notes to Financial Statements
For the Year Ended June 30, 2018

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, 2018.

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2018

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 2014-2016 are open to examination by taxing authorities.

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2018

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 \$107,571 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 \$11.50 per hour.

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, 2018:

	<u>2018</u>
Auto	\$ 6,538
Leasehold improvements	471,911
Furniture and equipment	555,216
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	1,033,665
Accumulated depreciation and amortization	(726,231)
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Property and Equipment - Net	<u><u>\$ 307,434</u></u>

Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2018

Note 3 – Advanced Ticket Sales

The Theatre had received \$409,183 at June 30, 2018, 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, 2018:

	<u>2018</u>
Purpose Restrictions	
Capital Campaign	\$ 30,514
Total	<u>\$ 30,514</u>

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 of 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, 2018

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. There were no Level 2 or Level 3 investments as of June 30, 2018.

Investment return for the year ended June 30, 2018 included in the statements of activities is comprised of the following:

	<u>2018</u>
Realized and unrealized losses	\$ 24
Interest and dividends	227
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	\$ 251
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Note 6 – Cash and Equivalents

At June 30, 2018, cash was held in the following institutions:

Petty Cash	\$ 1,350
California Bank & Trust (3 accounts)	25,360
Wells Fargo (1 account)	182
Union Bank (2 accounts)	40,218
Charles Schwab (1 account)	100
Bancorp Bank (1 account)	397
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	\$ 67,607
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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, 2018

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 \$3,000 through its expiration in January 2018. 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. Total rental expense was \$99,907 for the year ended June 30, 2018.

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 \$11,970 for the year ended June 30, 2018.

Note 9 – Line of Credit

The Theatre has \$150,000 of available credit at California Bank and Trust. \$25,000 of the line is in the form of a credit card credit limit and the remaining \$125,000 is a traditional line of credit. The interest rate on the line of credit portion is variable at prime plus .75%. As of June 30, 2018, the outstanding principal amount was \$121,881 on the line portion.

Note 10 – Long Term Debt

At June 30, 2018, the Theatre is indebted to officers/directors/major donors in the amount of \$156,035 for advances to the Theatre. The following are the terms of the loans:

Note payable, Carey Wall. Payable in monthly installments of \$1,298.19 principal plus interest at 6% per annum through November 2019.	\$ 21,107
Note payable, Pamela Richards. Payable in monthly installments of \$1,489.73 principal plus interest at 6% per annum through April 2020.	34,928
Note payable, Lipman. Payable in monthly installments of \$500.00 interest only at 6% with the principal due December 2019.	100,000
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	\$ 156,035
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Cygnnet Theatre Company
Notes to Financial Statements
(continued)
For the Year Ended June 30, 2018

Note 10-Long Term Debt (continued)

Maturity of long-term debt as of June 30, 2018 is as follows:

2019	\$	149,951
2020		6,084
2021		0
2022		0
2023		0

Note 11-Subsequent Events

Events subsequent to June 30, 2018 have been evaluated through September 30, 2018, 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.