



ORLANDO SHAKESPEARE THEATER, INC.
Financial Statements
May 31, 2021 and 2020
With Independent Auditor's Report

Orlando Shakespeare Theater, Inc.
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May 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
Orlando Shakespeare Theater, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Orlando Shakespeare Theater, Inc. (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of May 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orlando Shakespeare Theater, Inc. as of May 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



January 24, 2022

Orlando Shakespeare Theater, Inc.
Statements of Financial Position
May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,830,083	\$ 1,580,185
Investments	961,630	958,320
Accounts receivable	16,852	44,984
Inventory	38,442	37,444
Prepaid expenses	10,552	107,125
Other assets	499	14,300
Total current assets	<u>2,858,058</u>	<u>2,742,358</u>
Interest in building lease, net	1,233,202	1,371,505
Property and equipment, net	1,454,129	1,431,575
Cash and cash equivalents designated by the Board of Directors for long-term purposes	<u>150,000</u>	<u>100,060</u>
Total assets	<u>\$ 5,695,389</u>	<u>\$ 5,645,498</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 193,990	\$ 204,283
Deferred support and revenue	206,247	655,384
Notes payable	273,955	340,700
Total current liabilities	<u>674,192</u>	<u>1,200,367</u>
Net assets		
Without donor restrictions	2,839,598	2,154,196
With donor restrictions	<u>2,181,599</u>	<u>2,290,935</u>
Total net assets	<u>5,021,197</u>	<u>4,445,131</u>
	<u>\$ 5,695,389</u>	<u>\$ 5,645,498</u>

The Notes to Financial Statements are an integral part of these statements.

Orlando Shakespeare Theater, Inc.
Statement of Activities
Year Ended May 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Support			
United Arts of Central Florida			
Designated gifts	\$ 946,254	\$ -	\$ 946,254
Allocation	38,346	-	38,346
Total United Arts of Central Florida	984,600	-	984,600
Donated materials and services	16,563	-	16,563
Fundraising events	62,914	-	62,914
Corporations, foundations, and individuals	373,266	82,845	456,111
Corporate sponsorships	58,500	-	58,500
University of Central Florida	146,700	-	146,700
Government support	638,460	-	638,460
Net assets released from restrictions	364,082	(364,082)	-
Total support	2,645,085	(281,237)	2,363,848
Revenue			
Theater admissions	597,690	-	597,690
Rental income	48,355	-	48,355
Education income	38,724	-	38,724
Interest and investment return	7,285	171,901	179,186
Other income	35,086	-	35,086
Total revenue	727,140	171,901	899,041
Total support and revenue	3,372,225	(109,336)	3,262,889
Expenses			
Program services	1,778,360	-	1,778,360
Supporting services			
General and administrative	396,172	-	396,172
Fundraising events	189,540	-	189,540
Total expenses before depreciation and amortization	2,364,072	-	2,364,072
Change in net assets before depreciation and amortization	1,008,153	(109,336)	898,817
Depreciation and amortization	(322,751)	-	(322,751)
Change in net assets	685,402	(109,336)	576,066
Net assets			
Beginning of year	2,154,196	2,290,935	4,445,131
End of year	\$ 2,839,598	\$ 2,181,599	\$ 5,021,197

The Notes to Financial Statements are an integral part of this statement.

Orlando Shakespeare Theater, Inc.
Statement of Activities
Year Ended May 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Support			
United Arts of Central Florida			
Designated gifts	\$ 383,598	\$ -	\$ 383,598
Allocation	<u>245,700</u>	<u>-</u>	<u>245,700</u>
Total United Arts of Central Florida	<u>629,298</u>	<u>-</u>	<u>629,298</u>
Donated materials and services	40,093	-	40,093
Fundraising events	289,215	-	289,215
Corporations, foundations, and individuals	513,828	-	513,828
Corporate sponsorships	130,794	-	130,794
University of Central Florida	165,000	-	165,000
Government support	222,183	-	222,183
Net assets released from restrictions	<u>158,099</u>	<u>(158,099)</u>	<u>-</u>
Total support	<u>2,148,510</u>	<u>(158,099)</u>	<u>1,990,411</u>
Revenue			
Theater admissions	1,381,874	-	1,381,874
Rental income	126,658	-	126,658
Education income	65,501	-	65,501
Interest and investment return	28,875	21,246	50,121
Other income	<u>24,032</u>	<u>-</u>	<u>24,032</u>
Total revenue	<u>1,626,940</u>	<u>21,246</u>	<u>1,648,186</u>
Total support and revenue	<u>3,775,450</u>	<u>(136,853)</u>	<u>3,638,597</u>
Expenses			
Program services	2,912,823	-	2,926,477
Supporting services			
General and administrative	481,814	-	481,814
Fundraising events	<u>292,004</u>	<u>-</u>	<u>278,350</u>
Total expenses before depreciation and amortization	<u>3,686,641</u>	<u>-</u>	<u>3,686,641</u>
Change in net assets before depreciation and amortization	88,809	(136,853)	(48,044)
Depreciation and amortization	<u>(316,226)</u>	<u>-</u>	<u>(316,226)</u>
Change in net assets	<u>(227,417)</u>	<u>(136,853)</u>	<u>(364,270)</u>
Net assets			
Beginning of year	<u>2,381,613</u>	<u>2,427,788</u>	<u>4,809,401</u>
End of year	<u>\$ 2,154,196</u>	<u>\$ 2,290,935</u>	<u>\$ 4,445,131</u>

The Notes to Financial Statements are an integral part of this statement.

Orlando Shakespeare Theater, Inc.
Statement of Functional Expenses
Year Ended May 31, 2021

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 916,526	\$ 166,099	\$ 110,039	\$ 1,192,664
Production expenses	407,233	50	21,227	428,510
Donated material and supplies	-	-	12,063	12,063
Printing and advertising	157,985	215	757	158,957
Fundraising expenses	-	-	31,765	31,765
Payroll taxes	70,992	16,688	8,376	96,056
Employee benefits	79,871	11,663	705	92,239
Insurance	21,696	22,587	161	44,444
Supplies	15,745	25,240	-	40,985
Repairs and maintenance	2,199	27,858	-	30,057
Travel and entertainment	1,254	-	2,079	3,333
Postage and shipping	6,916	4,570	16	11,502
Professional services	1,034	13,740	-	14,774
Utilities	62,149	21,201	-	83,350
Telephone	6,102	3,940	-	10,042
Miscellaneous expenses	20,020	6,800	2,352	29,172
Bad debt expense	-	46,110	-	46,110
Rent expense	<u>8,638</u>	<u>29,411</u>	<u>-</u>	<u>38,049</u>
 Total expenses	 <u>\$ 1,778,360</u>	 <u>\$ 396,172</u>	 <u>\$ 189,540</u>	 <u>\$ 2,364,072</u>

The Notes to Financial Statements are an integral part of this statement.

Orlando Shakespeare Theater, Inc.
Statement of Functional Expenses
Year Ended May 31, 2020

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 1,677,909	\$ 265,867	\$ 129,381	\$ 2,073,157
Production expenses	553,303	-	15,506	568,809
Printing and advertising	159,839	-	43,592	203,431
Fundraising expenses	-	-	84,527	84,527
Payroll taxes	102,201	15,968	8,230	126,399
Employee benefits	171,814	24,076	2,634	198,524
Insurance	48,991	34,506	409	83,906
Supplies	14,204	18,284	255	32,743
Repairs and maintenance	7,735	26,578	-	34,313
Travel and entertainment	40,288	-	250	40,538
Postage and shipping	16,112	4,570	554	21,236
Professional services	261	13,386	-	13,647
Utilities	86,877	29,995	-	116,872
Telephone	5,438	8,972	-	14,410
Miscellaneous expenses	27,844	11,451	3,166	42,461
Bad debt expense	-	-	3,500	3,500
Rent expense	<u>7</u>	<u>28,161</u>	<u>-</u>	<u>28,168</u>
 Total expenses	 <u>\$ 2,912,823</u>	 <u>\$ 481,814</u>	 <u>\$ 292,004</u>	 <u>\$ 3,686,641</u>

The Notes to Financial Statements are an integral part of this statement.

Orlando Shakespeare Theater, Inc.
Statements of Cash Flows
Years Ended May 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating activities		
Change in net assets	\$ 576,066	\$ (364,270)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	46,110	3,500
Depreciation and amortization	322,751	316,226
Forgiveness of debt	(340,700)	-
Gain from investments	(179,186)	(41,014)
Changes in operating assets and liabilities		
Accounts receivable	(17,978)	172,496
Inventory	(998)	258
Prepaid expenses	96,573	86,433
Other assets	13,801	2,195
Accounts payable and accrued expenses	(10,293)	160,118
Deferred support and revenue	<u>(449,137)</u>	<u>(157,285)</u>
Net cash provided by operating activities	<u>57,009</u>	<u>178,657</u>
Investing activities		
Purchases of investments	(291,640)	(240,832)
Proceeds from sale of investments	467,516	260,601
Purchases of property and equipment	<u>(207,002)</u>	<u>(106,519)</u>
Net cash used in investing activities	<u>(31,126)</u>	<u>(86,750)</u>
Financing activities		
Proceeds from notes payable	<u>273,955</u>	<u>340,700</u>
Change in cash and cash equivalents	<u>299,838</u>	<u>432,607</u>
Cash and cash equivalents		
Beginning of year	<u>1,680,245</u>	<u>1,247,638</u>
End of year	<u>\$ 1,980,083</u>	<u>\$ 1,680,245</u>
Reconciliation of cash and cash equivalents to the statement of financial position		
Cash and cash equivalents	\$ 1,830,083	\$ 1,580,185
Cash and cash equivalents designated by Board of Directors for long-term purposes	<u>150,000</u>	<u>100,060</u>
Total cash and cash equivalents	<u>\$ 1,980,083</u>	<u>\$ 1,680,245</u>

The Notes to Financial Statements are an integral part of these statements.

Orlando Shakespeare Theater, Inc.
Notes to Financial Statements
May 31, 2021 and 2020

1. ORGANIZATION AND PURPOSE

Orlando Shakespeare Theater, Inc. (the "Organization") is a not-for-profit corporation that produces and presents theatrical performances and related educational programs. These performances and programs are funded through individual and corporate donations, governmental support, and ticket sales. The Organization includes volunteers known as the Orlando Shakespeare Festival Guild (the "Guild"). They organize fundraising events for the benefit of the Organization. The operations of the Guild are included as a component of fundraising revenue and expense in the statements of activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). According to GAAP, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions, and net assets without donor restrictions. Net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. These assets may, however, be subject to Board designation.

Net assets with donor restrictions: Net assets that are subject to donor-imposed stipulations. These stipulations either require the Organization to maintain the net asset permanently, generally permitting all or part of the income earned on related investments for general or specific purposes, or be met either by the completion of a stipulated action and/or the passage of time.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The Organization's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization recognizes income and dividends from investments on the ex-dividend date. See Note 4 for discussion of fair value measurements.

Accounts Receivable

Accounts receivable are stated at net realizable value. In determining whether or not to record an allowance for doubtful accounts, management makes a judgmental determination based on various factors, including aging and the nature of particular accounts. Management has determined that no allowance for doubtful accounts is necessary at May 31, 2021 or 2020. Accounts receivable are written off as a charge to the allowance for doubtful accounts when, in management's estimation, it is probable that the receivable is worthless. The beginning balance of accounts receivable at June 1, 2019 was \$220,980.

Inventory

Inventory held in the Guild gift shop on the premises of the Organization is stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method.

Orlando Shakespeare Theater, Inc.
Notes to Financial Statements
May 31, 2021 and 2020

Promises to Give

Unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due within one year are recorded at their estimated net realizable value. Unconditional promises to give due after one year are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years over which the promises are to be received.

Property and Equipment

Property and equipment consists of production and office equipment, vehicles, and leasehold improvements. Property and equipment in excess of \$5,000 is capitalized and recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years for production and office equipment and vehicles and the remaining term of the lease for leasehold improvements.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair market value at the date of donation. Such donations are recorded as an increase in net assets without donor restrictions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

For the years ended May 31, 2021 and 2020, donated materials consisted of production and advertising materials totaling \$16,563 and \$40,093, respectively.

Deferred Support and Revenue

Support

The Organization receives support and grant funding from certain private foundations for which revenue is recognized only to the extent of expenditures under the terms of the grant. Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grant amounts awarded in excess of obligations incurred are recorded as deferred revenue in the accompanying statements of financial position.

Revenue

Payments for theatre admissions received during the year for the following season's productions are recorded as deferred revenue on the accompanying statements of financial position. The deferred revenue is recognized in the following year as the season progresses. Ticket sales for individual programs are recorded as deferred revenue upon receipt, and recognized as theatre admissions when the production occurs. Advanced education payments are recorded as revenue when the education program is complete.

The beginning balance of deferred revenue at June 1, 2019 was \$812,669.

Income Taxes

The Organization is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to a tax on income from any unrelated business. At May 31, 2021 and 2020, the Organization did not incur any income tax liabilities from unrelated business income.

Orlando Shakespeare Theater, Inc.
Notes to Financial Statements
May 31, 2021 and 2020

Accounting principles generally accepted in the United States of America prescribe requirements for the recognition of income taxes in financial statements, and the amounts recognized are affected by income tax positions taken by the Organization in its tax returns. The Organization's status as a tax-exempt entity is defined as a tax position. While management believes it has complied with the Internal Revenue Code, the sustainability of some income tax positions taken by the Organization in its tax returns may be uncertain. There are minimum thresholds of likelihood that uncertain tax positions are required to meet before being recognized in the financial statements. Management does not believe that the Organization has any material uncertain tax positions at May 31, 2021 and 2020. In the event interest and penalties were due relating to an unsustainable tax position, they would be treated as a component of income tax expense.

Accounting Pronouncements Adopted in Current Year

Revenue Recognition

The Financial Standards Accounting Board ("FASB") issued new guidance that created *Topic 606, Revenue from Contracts with Customers*, in the Accounting Standards Codification ("ASC"). ASC 606 supersedes the prior revenue recognition requirements (codified as ASC 605, *Revenue Recognition*) and most industry specific guidance. ASC 606 established a core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Organization adopted the requirements of the new guidance as of June 1, 2020, utilizing the modified retrospective method of transition. No adjustment to net assets as of June 1, 2020 was necessary. The Organization applied the new guidance using the practical expedient provided in ASC 606 that allows the guidance to be applied only to contracts that were not complete as of June 1, 2020. Adoption of the new guidance resulted in minimal changes to the Organization's accounting policies for revenue recognition, receivables, and deferred revenue.

Revenue Recognition

Revenue from Contracts with Customers - The Organization accounts for ticket sales, enhancement and co-production income, service charge and facility income, parking lot income, concession and restaurant income, tuition income and miscellaneous education income, and royalty income as exchange transactions in the statements of activities. Revenue from contracts with customers is treated as revenues without donor restrictions. Funds received in advance from customers for services that have not been performed have been recorded as contract liabilities (advance box office revenue, deferred enhancement revenue, unredeemed gift certificates and deferred tuition) in the statements of financial position.

Fundraising Benefit - Fundraising benefit revenue comprises an exchange element, based on the benefits received, and a contribution element for the difference and is treated as revenue without donor restrictions. The Organization does not have any significant financing components as payment is received at or shortly after the point of sale. The contribution portion is recognized as a conditional contribution when received and reported as a refundable advance on the statements of financial position, and is recognized as revenue when the condition is met, which is when the event takes place. For the exchange portion, funds received in advance of the event date are recorded as deferred revenue in the statements of financial position. Revenue from the exchange portion is recognized at a point in time, at the date the event is held.

Other revenues are obtained from rental income and investment income. These revenues are used to offset program, management and general and fundraising expenses. Revenue from these sources are recognized when earned. Certain investment income has been classified as with donor restrictions based on donor stipulations.

Orlando Shakespeare Theater, Inc.
Notes to Financial Statements
May 31, 2021 and 2020

The following summarizes the Organization's performance obligations:

Theatre Admissions

Theatre admissions (ticket sales) represent the sums actually paid for individual tickets of admission to a production of the Organization including handling and other fees. Tickets and the related fees are non-refundable at the time of receipt unless a performance is cancelled. The Organization estimates the number of cancellations and records a reserve if deemed material. The Organization allows for exchanges under certain circumstances for tickets of equal or lesser value. The total yearly adjustment for exchanged tickets is immaterial to the Organization. Tickets purchased in advance are recorded as deferred revenue by the Organization. Advanced ticket sales are recorded as theatre admissions revenue at a point in time when the performance related to the ticket sale is complete.

Concession Income

Concession income is received for the sale of food, beverages and licensed merchandise during the performances held by the Organization. Concession inventory is purchased from third party vendors. The Organization acts as an agent for the goods being sold; therefore, income is recorded net of costs of goods sold. Concession income is non-refundable at the time of receipt. Concession income is recognized at a point in time when the related sale takes place.

Education Income

Education income represents income received for customer participation in education programs. Fees for education services are set by the Organization and are set forth in the agreements with customers. Fees for education will vary based on program selection. The Organization offers discounts and scholarships, which are immaterial in nature. Payments received in advance for education programs are recorded as deferred revenue by the Organization. Advanced education payments are recorded as revenue when the education program is complete. Fees for tuition are refundable under certain circumstances, such as cancellation of the program. The total yearly adjustment for refunded tuition fees is immaterial to the Organization. Education income is recognized over a period of time, which is the length of the education program.

Advertising

Advertising consists primarily of television, newspaper, magazine, and billboard advertisements. All costs are expensed as incurred. Advertising expense totaled \$158,803 and \$161,101 for the years ended May 31, 2021 and 2020, respectively.

Functional Allocation of Expenses

The Organization's policy is to allocate indirect costs between various departments based on labor hours or square footage. Production expenses, professional services and materials are charged directly to the program. Salary and other related personnel expense allocations are based on an individual basis, based on the functions of each position and the time spent performing functions in a particular department. Depreciation, insurance, maintenance and repairs, facility related expense allocations and all other types of expenses are based on square footage of respective theatre facilities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Orlando Shakespeare Theater, Inc.
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Accounting Pronouncements Issued But Not Yet Adopted

Leases

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of its pending adoption of ASU 2016-02 on its financial statements.

Reclassifications

Certain amounts included in the 2019 financial statements have been reclassified to conform to the 2020 presentation. This reclassification had no impact on total assets, liabilities or net assets.

Subsequent Events

The Organization has evaluated subsequent events through January 24, 2022, the date which the financial statements were available to be issued. Based upon this evaluation, the Organization has determined that, other than described in Note 8, no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

3. INVESTMENTS

Investments at May 31, 2021, consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Exchange traded funds	\$ 254,777	\$ 326,264
Mutual funds	<u>532,352</u>	<u>635,366</u>
	<u>\$ 787,129</u>	<u>\$ 961,630</u>

Investments at May 31, 2020, consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Exchange traded funds	\$ 230,913	\$ 287,265
Mutual funds	<u>630,049</u>	<u>671,055</u>
	<u>\$ 860,962</u>	<u>\$ 958,320</u>

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Investment return for the years ended May 31, 2021 and 2020, consists of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 21	\$ 9,107
Realized and unrealized gains	<u>179,165</u>	<u>41,014</u>
Investment return	<u>\$ 179,186</u>	<u>\$ 50,121</u>

4. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurement and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the 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 under FASB ASC 820 are described as follows:

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 or liabilities in active markets,
- Quoted prices for identical or similar assets or liabilities in inactive markets,
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement (including the Organization's own assumption in determining the fair value of investments).

The asset's or liability'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.

The following are descriptions of the valuation methodologies used for assets measured at fair value:

Exchange-traded funds: Valued at the closing price reported on the active market on which the individual funds trade.

Mutual funds: Valued at the daily closing prices as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Orlando Shakespeare Theater, Inc.
Notes to Financial Statements
May 31, 2021 and 2020

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 Organization 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 sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Level 1		
Mutual funds		
Money market funds	\$ 47,351	\$ 83,587
Managed futures	-	21,567
Long term capital fund	229,270	230,118
Fixed income securities funds	215,864	202,050
High yield bond fund	73,966	70,004
International equity funds	35,808	32,915
Inflation-protected bond fund	33,107	30,814
	<u>635,366</u>	<u>671,055</u>
Exchange traded funds		
Large growth funds	139,475	156,406
Intermediate term bond funds	98,094	22,966
International funds	17,124	56,505
Large Cap Funds	50,344	15,444
Small Cap funds	21,227	35,944
	<u>326,264</u>	<u>287,265</u>
	<u>\$ 961,630</u>	<u>\$ 958,320</u>

5. CONDITIONAL PROMISES TO GIVE

During the year ended May 31, 2021, the United Arts of Central Florida ("United Arts") received \$578,755 in donations designated for the Organization for fiscal year ending May 31, 2022. During the year ended May 31, 2021, \$33,126 of these donations were paid to the Organization and are included in deferred support at May 31, 2021. The balance of donations, amounting to \$545,629, will be paid to the Organization during the year ended May 31, 2021. The Organization believes this promise to give is conditional based on passage of time and purpose.

At May 31, 2020, the United Arts of Central Florida ("United Arts") received \$426,156 in donations designated for the Organization for fiscal year ended May 31, 2021. During the year ended May 31, 2020, \$379,671 of these donations were paid to the Organization and were included in deferred support at May 31, 2020. The balance of donations, amounting to \$46,485, was paid to the Organization during the year ended May 31, 2021. The Organization believes this promise to give was conditional based on passage of time. Deferred revenue from United Arts as of June 1, 2019 totaled \$213,889.

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6. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at May 31:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 3,997,542	\$ 3,847,605
Production equipment	703,188	703,189
Office equipment	149,161	91,995
Vehicles	<u>2,451</u>	<u>2,451</u>
	4,852,342	4,645,240
Less: Accumulated depreciation and amortization	<u>(3,398,213)</u>	<u>(3,213,665)</u>
Total property and equipment, net	<u>\$ 1,454,129</u>	<u>\$ 1,431,575</u>

Depreciation expense and amortization for property and equipment totaled \$184,448 and \$177,923 for the years ended May 31, 2021 and 2020, respectively.

7. LINE OF CREDIT

The Organization maintains an unsecured line of credit with a bank for up to \$70,000. The line of credit expires on May 13, 2023. Outstanding advances on the line are due on demand, with interest at the bank's prime rate (3.25% at May 31, 2021) payable monthly. At May 31, 2021 and 2020, there was no outstanding balance on the line of credit.

8. NOTES PAYABLE

In April 2020, the Organization secured a Small Business Administration ("SBA") loan from an institution under the Payment Protection Program ("PPP") in the amount of \$340,700. The loan accrued interest at 1% annually and originally matured April 2022. Under the original terms, principal and interest payments of approximately \$20,000 were due monthly commencing November 2020 through maturity. The outstanding principal and interest would qualify for full forgiveness if the funds were used for the approved purposes, which include certain payroll and administrative costs. In December 2020, this PPP loan received full forgiveness from the lending financial institution and has been included in government support in the accompanying statement of activities for the year ended May 31, 2021.

In April 2021, the Organization secured a second draw from the SBA under the PPP in the amount of \$273,995. The loan accrues interest at 1% annually and originally matured April 2026. Under the original terms, principal and interest payments of approximately \$4,600 were due monthly commencing August 2021 through maturity. The outstanding principal and interest may qualify for full forgiveness if the funds are used for the approved purposes, which include certain payroll and administrative costs. In August 2021, this PPP loan received full forgiveness from the lending financial institution and will be included in government support in the accompanying statement of activities for the year ended May 31, 2022.

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9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at May 31, 2021 and 2020, held for various purpose restrictions and time restrictions, consist of the following:

	<u>2021</u>	<u>2020</u>
Cash held with purpose restrictions	\$ 82,845	\$ -
Interest in building lease	1,233,202	1,371,505
Investments held for purpose restrictions	235,691	202,552
Cultural endowment	600,000	600,000
Endowment earnings not appropriated for expenditures	29,861	116,878
	<u>\$ 2,181,599</u>	<u>\$ 2,290,935</u>

For the years ended May 31, 2021 and 2020, net assets were released from donor restrictions by either passage of time (i.e., amortization of building interest) or incurring expenses satisfying the purpose of the restriction specified by the donors as follows:

	<u>2021</u>	<u>2020</u>
Net asset restrictions accomplished		
Amortization of interest in building lease	\$ 138,303	\$ 138,303
Purpose restrictions met	18,592	-
Appropriated to board designated net assets	150,000	-
Appropriation of endowment for expenditures	57,187	19,796
Net assets released from restrictions	<u>\$ 364,082</u>	<u>\$ 158,099</u>

10. LEASES

On August 1, 1999, the Organization entered into a building lease with the City of Orlando (the "City"). The lease is for a period of 30 years and calls for annual rent of \$1. The Organization recorded the discounted present value of the City's contribution of the interest in the building lease at \$4,149,100.

The interest in the building lease is being amortized over the term of the lease and is included as a component of depreciation and amortization expenses. The net balance of the interest in the building lease at May 31, 2021 and 2020, is included in net assets with donor restrictions in the accompanying statements of financial position as follows:

	<u>2021</u>	<u>2020</u>
Interest in building lease	\$ 4,149,100	\$ 4,149,100
Less: Accumulated amortization	<u>(2,915,898)</u>	<u>(2,777,595)</u>
Total interest in building lease, net	<u>\$ 1,233,202</u>	<u>\$ 1,371,505</u>

Amortization expense totaled \$138,303 for each of the years ended May 31, 2021 and 2020.

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The Organization entered into a sublease agreement with International Fringe Festival of Central Florida, Inc. (the "Sub-lessor") that originally expired October 1, 2020. The agreement was amended to extend over the period from October 1, 2020 through September 30, 2021 and calls for monthly rent of \$3,476. The Organization recorded \$41,910 and \$43,454 in revenue from this sub-lease for the years ended May 31, 2021 and 2020, respectively.

11. CONCENTRATIONS AND CREDIT RISK

Support

The Organization is dependent upon the University of Central Florida ("UCF"), United Arts, and contributors to the Organization through United Arts for financial support of its operations. Funding from these sources totaled \$1,191,570 and \$829,767 for the years ended May 31, 2021 and 2020, respectively.

Cash and Cash Equivalents

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents. The Organization places its cash with high credit quality financial institutions. At various times throughout fiscal year 2021 and 2020, cash balances held at some financial institutions were in excess of federally insured limits of \$250,000, or funds were invested in uninsured money market funds.

12. RETIREMENT PLANS

Single-Employer Plan

The Organization sponsors a 403(b) retirement plan into which employees may contribute a portion of their income on a pre-tax basis. The Organization paid \$11,800 and \$12,127 in contributions to the retirement plan for the years ended May 31, 2021 and 2020, respectively.

Multiemployer Plan

The Organization also contributes to a multiemployer defined benefit pension plan under the terms of a collective bargaining agreement that covers the Organization's union represented employees. The risks of participating in multiemployer plans are different from single-employer plans in the following aspects: a) assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers; b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and c) if a participating employer chooses to stop participating in some of its multiemployer plans, it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Organization is subject to a collective bargaining agreement with the Actors' Equity Association. The current collective bargaining agreement expires February 13, 2022. The agreement requires contributions to the Equity-League Pension Trust Fund (EIN / Plan Number 13-6696817 / 001) ("Pension Fund").

The Pension Fund is a defined-benefit plan that is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). As of May 31, 2021, the fair value of the Plan's liabilities exceeded the assets. The Plan had a funded percentage of 97.2% and the Pension Protection Act Zone Status was green (Plans in the green zone are more than 80% funded). Plan benefits are funded by contributions from multiple employers under the collective bargaining agreement, based on gross wages for participants. The employer contribution rate for each of the years ended May 31, 2021 and 2020 was 8% of gross wages. Organization contributions to the plan amounted to \$12,534 and \$25,854 for the years ended May 31, 2021 and 2020, respectively. The contributions for the years ended May 31, 2021 and 2020 were less than 5% of the total contributions made by all employers. At May 31, 2021 and 2020, the Organization does not have any required future minimum contributions requirements, statutory or other contractual obligations.

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13. ENDOWMENT

The Organization's endowment consists of two individual funds established for different purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's cultural endowment fund was established for the purpose of raising \$360,000 for the Organization. This is part of the Board designated endowment. On July 21, 2014, this was matched in part by the state of Florida in the amount of \$240,000, with a condition of the continuation of the program. The action by the state to match has created a donor-restricted endowment, with an endowment totaling \$600,000 in principal. The principal on this endowment will not be spent; however, income earned on the investment can be used to fund operations of the Organization.

Interpretation of Relevant Law

The Organization is subject to the Florida Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Directors of the Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization; and
- The investment policies of the Organization.

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Endowment net asset composition by type of fund at May 31, 2021, includes:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 629,861	\$ 629,861
Board-designed endowment funds	150,000	-	150,000
Total funds	<u>\$ 150,000</u>	<u>\$ 629,861</u>	<u>\$ 779,861</u>

Changes in endowment net assets for the year ended May 31, 2021, include:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 1, 2020	\$ 100,060	\$ 716,878	\$ 816,938
Investment income	-	120,170	120,170
Appropriated to board designated net assets	150,000	(150,000)	-
Appropriation of endowment for expenditures	(100,060)	(57,187)	(157,247)
Endowment net assets, May 31, 2021	<u>\$ 150,000</u>	<u>\$ 629,861</u>	<u>\$ 779,861</u>

Endowment net asset composition by type of fund at May 31, 2020, includes:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 716,878	\$ 716,878
Board-designed endowment funds	100,060	-	100,060
Total funds	<u>\$ 100,060</u>	<u>\$ 716,878</u>	<u>\$ 816,938</u>

Changes in endowment net assets for the year ended May 31, 2020, include:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 1, 2019	\$ 101,261	\$ 708,057	\$ 809,318
Investment income (loss)	(1,201)	28,617	27,416
Appropriated to board designated net assets	-	-	-
Appropriation of endowment for expenditures	-	(19,796)	(19,796)
Endowment net assets, May 31, 2020	<u>\$ 100,060</u>	<u>\$ 716,878</u>	<u>\$ 816,938</u>

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At May 31, 2021 and 2020, investments included \$9,061 and \$38,891 which is considered unrestricted related to cumulative appropriation of endowment for expenditures not withdrawn from the investment accounts.

Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to preserve the fair value of the original gift as of the gift date of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is conservative and assumes a minimal level of investment risk. The Organization's goal is for its endowment fund to provide a rate of return over a market cycle (3 to 5 years) to exceed the rate of inflation (as measured by the Consumer Price Index) plus 5%.

Strategies Employed for Achieving Objectives

To satisfy its investment and rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on fixed asset-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization, at the discretion of the Board of Directors, appropriates funds to support the various programs only from the investment earnings of the endowment fund. The Organization has a policy that permits spending from underwater endowment funds, depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The Board of Directors did not appropriate any funds from underwater endowments due to not having any underwater endowment funds.

COMMITMENTS AND CONTINGENCIES

Litigation

From time to time, the Organization may be involved in litigation arising in the normal course of business. In the opinion of management, such matters will not have a material effect of the financial position of the Organization.

Pandemic

The Organization's operations have been significantly impacted due to event closures and restrictions related to the spread of the COVID-19 outbreak in the United States. During 2020 and through the date of this report, theatrical performances during the year were still not operating at full capacity. Although the Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material adverse effect on the Organization's results of future operations, financial position and liquidity in fiscal 2022.

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14. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,830,083	\$ 1,580,185
Investments	961,630	958,320
Accounts receivable	16,852	44,984
Cash and cash equivalents designated by the Board of Directors for long-term purposes	<u>150,000</u>	<u>100,060</u>
Total financial assets available within one year	<u>2,958,565</u>	<u>2,683,549</u>
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(265,552)	(319,430)
Restricted by donors in perpetuity	<u>(600,000)</u>	<u>(600,000)</u>
Total amounts unavailable for general expenditures within one year	<u>(865,552)</u>	<u>(919,430)</u>
Amounts unavailable to management without Board's approval:		
Cash and cash equivalents designated by the Board of Directors for long-term purposes	<u>(150,000)</u>	<u>(100,060)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 1,943,013</u>	<u>\$ 1,664,059</u>

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 7, the Organization has a committed line of credit of \$70,000, which it could draw upon in the event of an unanticipated liquidity need.