



ORLANDO SHAKESPEARE THEATER, INC.
Financial Statements
May 31, 2022 and 2021
With Independent Auditor's Report

Orlando Shakespeare Theater, Inc.
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May 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audits of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Withum Smith & Brown, PC

January 31, 2023

Orlando Shakespeare Theater, Inc.
Statements of Financial Position
May 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|-------------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,722,064 | \$ 1,830,083 |
| Investments | 1,023,413 | 961,630 |
| Accounts receivable | 27,484 | 16,852 |
| Inventory | 38,442 | 38,442 |
| Prepaid expenses | 16,580 | 10,552 |
| Other assets | <u>524</u> | <u>499</u> |
| Total current assets | 3,828,507 | 2,858,058 |
| Interest in building lease, net | 1,094,899 | 1,233,202 |
| Property and equipment, net | 1,456,403 | 1,454,129 |
| Cash and cash equivalents designated by the Board of Directors for long-term purposes | <u>150,000</u> | <u>150,000</u> |
| Total assets | <u>\$ 6,529,809</u> | <u>\$ 5,695,389</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 103,214 | \$ 193,990 |
| Deferred support and revenue | 649,928 | 206,247 |
| Note payable | <u>-</u> | <u>273,955</u> |
| Total current liabilities | <u>753,142</u> | <u>674,192</u> |
| Net assets | | |
| Without donor restrictions | 3,735,117 | 2,839,598 |
| With donor restrictions | <u>2,041,550</u> | <u>2,181,599</u> |
| Total net assets | <u>5,776,667</u> | <u>5,021,197</u> |
| | <u>\$ 6,529,809</u> | <u>\$ 5,695,389</u> |

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

Orlando Shakespeare Theater, Inc.
Statement of Activities
Year Ended May 31, 2022

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|--|---|---------------------|
| Support and revenue | | | |
| Support | | | |
| United Arts of Central Florida | | | |
| Designated gifts | \$ 242,184 | \$ - | \$ 242,184 |
| Allocation | 270,038 | - | 270,038 |
| Total United Arts of Central Florida | 512,222 | - | 512,222 |
| Donated materials and services | 25,189 | - | 25,189 |
| Fundraising events and related | 110,021 | - | 110,021 |
| Corporations, foundations, and individuals | 272,413 | 106,250 | 378,663 |
| Corporate sponsorships | 105,600 | - | 105,600 |
| University of Central Florida | 179,100 | - | 179,100 |
| Government support | 1,778,771 | - | 1,778,771 |
| Net assets released from restrictions | 189,581 | (189,581) | - |
| Total support | 3,172,897 | (83,331) | 3,089,566 |
| Revenue | | | |
| Theater admissions | 1,046,626 | - | 1,046,626 |
| Concessions and gift shop | 110,055 | - | 110,055 |
| Rental income | 166,058 | - | 166,058 |
| Education income | 76,577 | - | 76,577 |
| Interest and investment loss | (11,871) | (56,718) | (68,589) |
| Other income | 3,090 | - | 3,090 |
| Total revenue | 1,390,535 | (56,718) | 1,333,817 |
| Total support and revenue | 4,563,432 | (140,049) | 4,423,383 |
| Expenses | | | |
| Program services | 2,554,345 | - | 2,554,345 |
| Supporting services | | | |
| General and administrative | 556,760 | - | 556,760 |
| Fundraising events | 192,233 | - | 192,233 |
| Total expenses before depreciation and amortization | 3,303,338 | - | 3,303,338 |
| Change in net assets before depreciation and amortization | 1,260,094 | (140,049) | 1,120,045 |
| Depreciation and amortization | (364,575) | - | (364,575) |
| Change in net assets | 895,519 | (140,049) | 755,470 |
| Net assets | | | |
| Beginning of year | 2,839,598 | 2,181,599 | 5,021,197 |
| End of year | \$ 3,735,117 | \$ 2,041,550 | \$ 5,776,667 |

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

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|--------------|
| 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 Functional Expenses
Year Ended May 31, 2022

| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Fundraising Events</u> | <u>Total</u> |
|-------------------------------|-----------------------------|---------------------------------------|-------------------------------|---------------------|
| Salaries and wages | \$ 1,480,933 | \$ 326,096 | \$ 99,857 | \$ 1,906,886 |
| Production expenses | 465,064 | 4,504 | 3,251 | 472,819 |
| Donated material and supplies | 3,200 | - | 2,963 | 6,163 |
| Printing and advertising | 117,716 | 2,645 | 3,287 | 123,648 |
| Fundraising expenses | 23,998 | 10,770 | 71,203 | 105,971 |
| Payroll taxes | 95,607 | 37,250 | 5,805 | 138,662 |
| Employee benefits | 119,691 | 24,657 | 1,620 | 145,968 |
| Insurance | 24,423 | 29,495 | 126 | 54,044 |
| Supplies | 21,409 | 9,990 | 132 | 31,531 |
| Repairs and maintenance | 21,794 | 20,822 | - | 42,616 |
| Travel and entertainment | 24,840 | 96 | 1,518 | 26,454 |
| Postage and shipping | 18,380 | 2,384 | 1,443 | 22,207 |
| Professional services | - | 17,409 | - | 17,409 |
| Utilities | 86,223 | 28,741 | - | 114,964 |
| Telephone | 5,333 | 6,484 | - | 11,817 |
| Miscellaneous expenses | 28,793 | 13,167 | 1,028 | 42,988 |
| Rent expense | 16,941 | 22,250 | - | 39,191 |
| | <u>\$ 2,554,345</u> | <u>\$ 556,760</u> | <u>\$ 192,233</u> | <u>\$ 3,303,338</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 Events</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> |
| | <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.
Statements of Cash Flows
Years Ended May 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Operating activities | | |
| Change in net assets | \$ 755,470 | \$ 576,066 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Bad debt expense | - | 46,110 |
| Depreciation and amortization | 364,575 | 322,751 |
| Forgiveness of debt | (273,955) | (340,700) |
| Investment return | 68,589 | (179,186) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (10,632) | (17,978) |
| Inventory | - | (998) |
| Prepaid expenses | (6,028) | 96,573 |
| Other assets | (25) | 13,801 |
| Accounts payable and accrued expenses | (90,776) | (10,293) |
| Deferred support and revenue | 443,681 | (449,137) |
| Net cash provided by operating activities | <u>1,250,899</u> | <u>57,009</u> |
| Investing activities | | |
| Purchases of investments | (192,161) | (291,640) |
| Proceeds from sale of investments | 61,789 | 467,516 |
| Purchases of property and equipment | <u>(228,546)</u> | <u>(207,002)</u> |
| Net cash used in investing activities | <u>(358,918)</u> | <u>(31,126)</u> |
| Financing activity | | |
| Proceeds from notes payable | <u>-</u> | <u>273,955</u> |
| Net change in cash and cash equivalents | 891,981 | 299,838 |
| Cash and cash equivalents | | |
| Beginning of year | <u>1,980,083</u> | <u>1,680,245</u> |
| End of year | <u>\$ 2,872,064</u> | <u>\$ 1,980,083</u> |
| Reconciliation of cash and cash equivalents to the statements of financial position | | |
| Cash and cash equivalents | \$ 2,722,064 | \$ 1,830,083 |
| Cash and cash equivalents designated by Board of Directors for long-term purposes | <u>150,000</u> | <u>150,000</u> |
| Total cash and cash equivalents | <u>\$ 2,872,064</u> | <u>\$ 1,980,083</u> |

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

Orlando Shakespeare Theater, Inc.
Notes to Financial Statements
May 31, 2022 and 2021

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, 2022 or 2021. 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, 2020 was \$44,984.

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, 2022 and 2021

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 lesser of the remaining term or estimated useful life of the lease for leasehold improvements.

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 support and revenue at June 1, 2020 was \$655,384.

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, 2022 and 2021, the Organization did not incur any income tax liabilities from unrelated business income.

Orlando Shakespeare Theater, Inc.
Notes to Financial Statements
May 31, 2022 and 2021

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, 2022 and 2021. 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

Gifts In-Kind - During the year ended May 31, 2022, the Organization elected to adopt Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets.

The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements.

Revenue Recognition

Revenue from Contracts with Customers - The Organization accounts for theatre admissions, enhancement and co-production income (other income), service charge and facility rental income, concession and gift shop income, and education 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, 2022 and 2021

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 and Gift Shop Income

Concession and gift shop income is received for the sale of food, beverages and licensed merchandise during the performances held by the Organization. Concession and gift shop 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 and gift shop income is non-refundable at the time of receipt. Concession and gift shop 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.

Gifts-in-Kind

The Organization receives various forms of gift-in-kind ("GIK") including in-kind equipment and vehicle. GIK are reported as contributions at their estimated fair value on the date of receipt and reported as expense when utilized. For the years ended May 31, 2022 and 2021, in-kind gifts consisted of a vehicle and production and advertising materials totaling \$25,189 and \$16,563, respectively.

Advertising

Advertising consists primarily of television, newspaper, magazine, and billboard advertisements. All costs are expensed as incurred. Advertising expense totaled \$123,648 and \$158,957 for the years ended May 31, 2022 and 2021, 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.
Notes to Financial Statements
May 31, 2022 and 2021

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 statement of financial position 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.

Subsequent Events

The Organization has evaluated subsequent events through January 31, 2023, the date which the financial statements were available to be issued. Based on this evaluation, the Organization has determined that no events have occurred which require adjustment to or disclosure in the financial statements.

3. INVESTMENTS

Investments at May 31, 2022, consist of the following:

| | <u>Cost</u> | <u>Fair Value</u> |
|-----------------------|-------------------|---------------------|
| Exchange traded funds | \$ 350,030 | \$ 373,573 |
| Mutual funds | <u>623,769</u> | <u>649,840</u> |
| | <u>\$ 973,799</u> | <u>\$ 1,023,413</u> |

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> |

Investment return for the years ended May 31, 2022 and 2021, consists of the following:

| | <u>2022</u> | <u>2021</u> |
|--|--------------------|-------------------|
| Interest and dividends | \$ 80 | \$ 21 |
| Realized and unrealized gains (losses) | <u>(68,669)</u> | <u>179,165</u> |
| Investment return | <u>\$ (68,589)</u> | <u>\$ 179,186</u> |

Orlando Shakespeare Theater, Inc.
Notes to Financial Statements
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4. FAIR VALUE MEASUREMENTS

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 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.

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.

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The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of May 31:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|---------------------|-------------------|
| Level 1 | | |
| Mutual funds | | |
| Money market funds | \$ 19,952 | \$ 47,351 |
| Long term capital fund | 240,862 | 229,270 |
| Fixed income securities funds | 196,672 | 215,864 |
| High yield bond fund | 67,700 | 73,966 |
| Long short equity fund | 47,800 | - |
| International equity funds | 44,476 | 35,808 |
| Inflation-protected bond fund | 32,378 | 33,107 |
| Total mutual funds | <u>649,840</u> | <u>635,366</u> |
| Exchange traded funds | | |
| Large growth funds | 149,467 | 139,475 |
| Intermediate term bond funds | 167,392 | 98,094 |
| Short term bond funds | 10,778 | - |
| International funds | 9,187 | 17,124 |
| Large cap funds | 16,154 | 50,344 |
| Small cap funds | 20,595 | 21,227 |
| Total exchange traded funds | <u>373,573</u> | <u>326,264</u> |
| | <u>\$ 1,023,413</u> | <u>\$ 961,630</u> |

5. CONDITIONAL PROMISES TO GIVE

During the year ended May 31, 2022, the United Arts of Central Florida ("United Arts") received \$499,365 in donations designated for the Organization for fiscal year ending May 31, 2022. During the year ended May 31, 2022, \$481,434 of these donations were paid to the Organization and are included in deferred support at May 31, 2022. The balance of donations, amounting to \$17,931 will be paid to the Organization during the year ended May 31, 2023. The Organization believes this promise to give is conditional based on passage of time and purpose. Additionally, \$33,126 of donations received related to the prior year campaign were not expended during the 2021-22 theatrical season and are also included in deferred revenue at May 31, 2022.

At May 31, 2021, the United Arts received \$578,755 in donations designated for the Organization for fiscal year ended May 31, 2022. During the year ended May 31, 2021, \$33,126 of these donations were paid to the Organization and were included in deferred support at May 31, 2021. The balance of donations, amounting to \$545,629, was paid to the Organization during the year ended May 31, 2022. The Organization believes this promise to give was conditional based on passage of time and purpose. Deferred revenue from United Arts as of June 1, 2020 totaled \$379,671.

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6. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at May 31:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Leasehold improvements | \$ 3,997,543 | \$ 3,997,542 |
| Production equipment | 838,269 | 703,188 |
| Office equipment | 192,496 | 149,161 |
| Vehicles | <u>52,581</u> | <u>2,451</u> |
| | 5,080,889 | 4,852,342 |
| Less: Accumulated depreciation and amortization | <u>(3,624,486)</u> | <u>(3,398,213)</u> |
| Total property and equipment, net | <u>\$ 1,456,403</u> | <u>\$ 1,454,129</u> |

Depreciation expense and amortization for property and equipment totaled \$215,161 and \$184,448 for the years ended May 31, 2022 and 2021, 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 (4% at May 31, 2022) payable monthly. At May 31, 2022 and 2021, 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 Paycheck 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 statements 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 accrued 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 would 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 statements 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, 2022 and 2021, held for various purpose restrictions and time restrictions, consist of the following:

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Cash held with purpose restrictions | \$ - | \$ 82,845 |
| Interest in building lease | 1,094,899 | 1,233,202 |
| Investments held for purpose restrictions | 346,651 | 235,691 |
| Cultural endowment | 600,000 | 600,000 |
| Endowment earnings not appropriated for expenditures | - | 29,861 |
| | <u>\$ 2,041,550</u> | <u>\$ 2,181,599</u> |

For the years ended May 31, 2022 and 2021, net assets were released from donor restrictions by either the 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>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Net asset restrictions accomplished | | |
| Amortization of interest in building lease | \$ 138,303 | \$ 138,303 |
| Purpose restrictions met | 51,278 | 18,592 |
| Appropriated to board designated net assets | - | 150,000 |
| Appropriation of endowment for expenditures | - | 57,187 |
| Net assets released from restrictions | <u>\$ 189,581</u> | <u>\$ 364,082</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, 2022 and 2021, is included in net assets with donor restrictions in the accompanying statements of financial position as follows:

| | <u>2022</u> | <u>2021</u> |
|---------------------------------------|---------------------|---------------------|
| Interest in building lease | \$ 4,149,100 | \$ 4,149,100 |
| Less: Accumulated amortization | <u>(3,054,201)</u> | <u>(2,915,898)</u> |
| Total interest in building lease, net | <u>\$ 1,094,899</u> | <u>\$ 1,233,202</u> |

Amortization expense totaled \$138,303 for each of the years ended May 31, 2022 and 2021.

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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 \$795,053 and \$1,191,570 for the years ended May 31, 2022 and 2021, 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 years 2022 and 2021, 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 \$9,016 and \$11,800 in contributions to the retirement plan for the years ended May 31, 2022 and 2021, 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 on April 30, 2023. 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, 2022, 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, 2022 and 2021 was 8% of gross wages. Organization contributions to the plan amounted to \$21,136 and \$12,534 for the years ended May 31, 2022 and 2021, respectively. The contributions for the years ended May 31, 2022 and 2021 were less than 5% of the total contributions made by all employers. At May 31, 2022 and 2021, 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, 2022, includes:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|----------------------------------|--|---|---------------------|
| Donor-restricted endowment funds | \$ - | \$ 600,000 | \$ 600,000 |
| Board-designed endowment funds | 150,000 | - | 150,000 |
| Total funds | <u>\$ 150,000</u> | <u>\$ 600,000</u> | <u>\$ 750,000</u> |

Changes in endowment net assets for the year ended May 31, 2022, include:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|------------------------------------|--|---|---------------------|
| Endowment net assets, June 1, 2021 | \$ 150,000 | \$ 629,861 | \$ 779,861 |
| Investment loss | - | (29,861) | (29,861) |
| Endowment net assets, May 31, 2022 | <u>\$ 150,000</u> | <u>\$ 600,000</u> | <u>\$ 750,000</u> |

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> |

At May 31, 2022 and 2021, investments included \$76,763 and \$9,061, respectively, which is considered unrestricted related to cumulative appropriation of endowment for expenditures not withdrawn from the investment accounts.

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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.

14. 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

Management continues to evaluate the COVID-19 virus in the United States and its impact on the theatrical industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial condition and results of operations, the specific impact is not readily determinable as of the date of the financial statements.

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15. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,722,064 | \$ 1,830,083 |
| Investments | 1,023,413 | 961,630 |
| Accounts receivable | 27,484 | 16,852 |
| Cash and cash equivalents designated by the Board of Directors for long-term purposes | <u>150,000</u> | <u>150,000</u> |
| Total financial assets available within one year | <u>3,922,961</u> | <u>2,958,565</u> |
| Less: | | |
| Amounts unavailable for general expenditures within one year, due to | | |
| Restricted by donors with purpose restrictions | (346,651) | (348,397) |
| Restricted by donors in perpetuity | <u>(600,000)</u> | <u>(600,000)</u> |
| Total amounts unavailable for general expenditures within one year | <u>(946,651)</u> | <u>(948,397)</u> |
| Amounts unavailable to management without the Board's approval | | |
| Cash and cash equivalents designated by the Board of Directors for long-term purposes | <u>(150,000)</u> | <u>(150,000)</u> |
| Total financial assets available to management for general expenditures within one year | <u>\$ 2,826,310</u> | <u>\$ 1,860,168</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.