GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Artists Repertory Theatre

Financial Statements and Other Information
as of and for the Year Ended June 30, 2023
and Report of Independent Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Artists Repertory Theatre:

Opinion

We have audited the accompanying financial statements of Artists Repertory Theatre, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Artists Repertory Theatre as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 Artists Repertory Theatre and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in note 3 to the accompanying financial statements, in 2023 Artists Repertory Theatre adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), as amended.

In addition, as discussed in notes 14, 16 and 17 of the accompanying financial statements, subsequent to June 30, 2023, the Company announced the cancellation of the 2023-24 season and other associated program activities for the coming fiscal year. This was due to an operating deficit reported as of and for the year ended June 30, 2023, and resulting operational funding limitations and construction commitments, as well as a modification of the construction timeline for completion of the Company's new home.

Our opinion is not modified with respect to these matters.

Responsibilities of Management 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, 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 Artists Repertory Theatre 's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Artists Repertory Theatre '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 Artists Repertory Theatre '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.

Summarized Comparative Information

We have previously audited Artists Repertory Theatre's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

December 26, 2023

ARTISTS REPERTORY THEATRE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

(WITH COMPARATIVE AMOUNTS FOR 2022)

	2023	2022
Assets:		
Cash and cash equivalents	$ 596,176	686,951
Contributions and grants receivable *(note 4)*	165,330	223,172
Deferred charges, prepaid expenses, and other assets	84,867	171,631
Investments *(note 5)*	4,837,904	6,055,340
Right-of-use assets – operating leases *(note 6)*	49,943	–
Property and equipment *(note 7)*	9,113,055	7,590,050
Total assets	$ 14,847,275	14,727,144
Liabilities:		
Accounts payable and accrued expenses	96,497	70,479
Construction payable	811,655	44,487
Deferred revenues – advance ticket sales	–	35,950
Lease liabilities – operating leases (note 6)	49,943	–
Total liabilities	958,095	150,916
Net assets:		
Without donor restrictions:		
Available for programs, general operations, and future capital investment	3,814,149	4,868,248
Net investment in capital assets	9,113,055	7,590,050
Total without donor restrictions	12,927,204	12,458,298
With donor restrictions *(note 10)*	961,976	2,117,930
Total net assets	13,889,180	14,576,228
Commitments *(notes 4, 8, 13 and 14)*		
Total liabilities and net assets	$ 14,847,275	14,727,144

See accompanying notes to financial statements.

ARTISTS REPERTORY THEATRE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

	2023			
	Without donor restrictions	With donor restrictions	Total	2022
Operating revenues, gains, and other support:				
Production revenues	$ 166,021	–	166,021	92,207
Contributions and grants	342,268	490,230	832,498	988,823
In-kind contributions	27,424	–	27,424	4,722
Special event revenues	36,605	–	36,605	72,536
Coronavirus relief funding *(note 9)*	370,566	–	370,566	879,872
Total investment return *(note 5)*	6,698	5,398	12,096	(227,586)
Rental income	5,500	–	5,500	12,744
Other	18,513	–	18,513	51,246
Total operating revenues and gains	973,585	495,628	1,469,213	1,874,564
Net assets released from restrictions for operating purposes *(note 11)*	585,239	(585,239)	–	–
Total operating revenues, gains, and other support	1,558,824	(89,611)	1,469,213	1,874,564
Expenses *(note 12)*:				
Program services:				
Artistic and production	1,710,183	–	1,710,183	1,675,752
Audience development and services	404,789	–	404,789	405,776
Total program services	2,114,972	–	2,114,972	2,081,528
Supporting services:				
Management and general	403,429	–	403,429	308,653
Financial development	144,583	–	144,583	48,113
Total supporting services	548,012	–	548,012	356,766
Total expenses	2,662,984	–	2,662,984	2,438,294
Decrease in net assets before non-operating activities	$ (1,104,160)	(89,611)	(1,193,771)	(563,730)

Continued

A R T I S T S   R E P E R T O R Y   T H E A T R E

STATEMENT OF ACTIVITIES (CONTINUED)

Y E A R   E N D E D   J U N E   3 0 ,   2 0 2 3

(W I T H   C O M P A R A T I V E   T O T A L S   F O R   2 0 2 2)

	2023			
	Without donor restrictions	With donor restrictions	Total	2022
Non-operating activities:				
Capital campaign gifts restricted for long-term investment in property and equipment	$ –	506,723	506,723	577,600
Net assets released from restrictions for capital purposes *(note 11)*	1,573,066	(1,573,066)	–	–
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Total non-operating activities	1,573,066	(1,066,343)	506,723	577,600
Increase (decrease) in net assets	468,906	(1,155,954)	(687,048)	13,870
Net assets at beginning of year	12,458,298	2,117,930	14,576,228	14,562,358
Net assets at end of year	$ 12,927,204	961,976	13,889,180	14,576,228

See accompanying notes to financial statements.

ARTISTS REPERTORY THEATRE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE TOTALS FOR 2022)

	2023								
	Program services			Supporting services					
	Artistic and production	Audience development and services	Total	Management and general	Financial development	Facilities	Total	Total	2022 Total
Salaries and related costs	719,449	302,827	1,022,276	131,644	60,458	–	192,102	1,214,378	1,235,599
Contracted services	135,079	5,310	140,389	58,363	57,808	9,482	125,653	266,042	167,494
Professional fees and dues	121,303	10,529	131,832	119,722	900	–	120,622	252,454	166,669
Materials and supplies	209,870	8,283	218,153	6,817	113	–	6,930	225,083	114,701
Occupancy	189,500	–	189,500	24,354	–	57,478	81,832	271,332	325,240
Royalties	10,662	–	10,662	–	–	–	–	10,662	15,925
Office expenses	1,604	–	1,604	12,579	6,542	323	19,444	21,048	19,575
Technology	2,482	3,532	6,014	99,317	550	3,000	102,867	108,881	137,013
Advertising	114,566	15,427	129,993	1,168	–	–	1,168	131,161	63,828
Travel	14,157	–	14,157	821	179	–	1,000	15,157	33,649
Special event expenses	–	–	–	106	2,368	–	2,474	2,474	23,277
Insurance	–	–	–	31,670	–	–	31,670	31,670	28,465
Depreciation	–	–	–	–	–	55,360	55,360	55,360	60,000
Other expenses	12,888	16,602	29,490	25,112	563	2,117	27,792	57,282	46,859
	1,531,560	362,510	1,894,070	511,673	129,481	127,760	768,914	2,662,984	2,438,294
Allocation of management and general expenses	101,442	24,011	125,453	(134,029)	8,576	–	(125,453)	–	–
Allocation of facilities expenses	77,181	18,268	95,449	25,785	6,526	(127,760)	(95,449)	–	–
Total expenses	$ 1,710,183	404,789	2,114,972	403,429	144,583	–	548,012	2,662,984	2,438,294

See accompanying notes to financial statements.

ARTISTS REPERTORY THEATRE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

(WITH COMPARATIVE TOTALS FOR 2022)

		2023	2022
Cash flows from operating activities:			
Cash received from contributors and grantors	$	1,348,992	1,501,912
Cash received from admissions and other service fees		154,084	146,562
Investment income		105,124	5,637
Cash paid to employees and suppliers		(2,414,690)	(2,459,276)
Cash paid for amounts included in the measurement of operating lease liabilities		(52,728)	–
Net cash used in operating activities		(859,218)	(805,165)
Cash flows from investing activities:			
Proceeds from the sale of investments		1,327,354	721,593
Purchase of investments		(97,878)	(507,367)
Reinvestment of earnings		(105,068)	(5,367)
Capital expenditures		(811,197)	(438,171)
Net cash provided by(used in) in investing activities		313,211	(229,312)
Cash flows from financing activities:			
Proceeds from contributions restricted for future long-term capital investment		455,232	673,600
Net cash provided by financing activities		455,232	673,600
Decrease in cash and cash equivalents		(90,775)	(360,877)
Cash and cash equivalents at beginning of year		686,951	1,047,828
Cash and cash equivalents at end of year	$	596,176	686,951

Supplemental schedule of noncash financing activities:			
Paycheck Protection Program loan forgiveness	$	–	280,897
Right-of-use assets upon FASB ASU 2016-02 implementation		81,837	–
Right-of-use assets obtained in exchange for new operating lease obligations		20,834	–

See accompanying notes to financial statements.

1. Organization

Artists Repertory Theatre is a nonprofit corporation established in the state of Oregon in 1982. The Company is the longest-running professional theatre company in Portland, Oregon.

The Company's mission is to engage diverse audiences in fresh, thought-provoking and intimate theatre. Productions feature the work of a core group of accomplished Resident Artists, each with a shared history and a shorthand for collaboration, working alongside guest artists from Portland and beyond. The Company is committed to world-class acting, directing, design and stagecraft that support new playwriting and aspire to embody great literature, moving audiences to feel and experience storytelling in a way that only the best live theater can.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – Net assets, revenues, gains and losses are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Company and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor-imposed stipulations. From time to time, the Board of Directors may designate a portion of these net assets for particular purposes and objectives.

- *Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Company and/or the passage of time. These balances represent the unexpended portion of donor-restricted contributions, grants and investment return to be used for specific programs and activities as directed by the donor.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are also reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, such differences, if any, would not be significant.

Cash Equivalents – For purposes of the financial statements, the Company considers all liquid investments having initial maturities of three months or less to be cash equivalents. Cash and cash equivalents held as part of the Company's investment portfolio, and where management's intention is to use the cash to acquire investments to be held long-term, are classified as investments.

Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair value in the statement of financial position. Whenever available, quotations from organized securities exchanges are used as the basis for fair value.

Net investment return, which includes both current yield (interest and dividend income) and net change in the fair value of investments, is reported in the statement of activities, net of investment expenses. Interest income is accrued as earned. All security transactions are recorded on a trade date basis.

The Company has some exposure to investment risks, including interest rate, market, and credit risks, for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

Capital Assets and Depreciation – Property and equipment are carried at cost, and initially measured at fair value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 20 to 40 years for buildings and building improvements, and five to ten years for furniture and equipment.

Revenue Recognition – With regard to revenues from grants and contracts, the Company evaluates whether each transfer of assets is (1) an exchange (reciprocal) transaction in which a resource provider receives commensurate value in return for the assets transferred, or (2) a nonreciprocal transfer (a contribution or a grant), where no value is exchanged.

- *Exchange Transactions* – If the transfer of assets is determined to be an exchange transaction, the Company recognizes revenue when or as it satisfies the required performance obligations and transfers the promised good or service to a customer, and when the customer obtains control of that good or service.

  Cash received related to performances or special events that have not occurred as of the end of the fiscal year are deferred. Such deferred revenue is subsequently recognized upon occurrence of the related production or special event.

- *Contributions and Grants* – If the transfer of assets is determined to be a contribution, the Company evaluates whether the contribution is conditional based upon whether the agreement includes both (1) a barrier that must be overcome to be entitled to the funds and (2) either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

- *Governmental Support* – Activities funded by governments are often carried out for the benefit of the general public, rather than to obtain goods or services for the government's own use or proprietary benefit. Accordingly, if the primary beneficiary of the activity is the general public, rather than the government itself, the transaction is treated as nonreciprocal (i.e., a contribution).

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the donor's commitment is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions and grants received with donor stipulations that limit the use of the donated assets are reported as net assets with donor restrictions.

Unconditional promises to give with payments due in future periods, are recorded as increases in net assets with donor restrictions at the estimated present value of future cash flows using credit adjusted discount rates which articulate to the collection period of the respective pledge. Such discount rates are not subsequently revised. Amortization of the discount is recorded as additional contribution revenue in subsequent years in the appropriate net asset class.

Unconditional contributions and grants receivable are reported net of an allowance for estimated uncollectible promises. Promises to give are written off when deemed uncollectible.

When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional contributions with donor-imposed restrictions are recorded as net assets without donor restrictions if those restrictions are satisfied, and conditions are met, in the same reporting period. Otherwise, contributions with donor-imposed restrictions are recorded as increases in net assets with donor restrictions, depending on the nature of the restriction.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the net assets without donor restrictions class.

Contributions of cash or other assets to be used to acquire capital assets with such donor stipulations are reported as net assets with donor restrictions; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Benefits Provided to Donors at Special Events – The Company conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Company.

In-Kind Contributions – A number of unpaid volunteers have made significant contributions of their time to develop and implement the Company's programs. Under generally accepted accounting principles, significant services received which create or enhance a non-financial asset or require specialized skills that the Company would have purchased if not donated are recognized in the statement of activities. During the year ended June 30, 2023, $11,284 of program, management and general, and fundraising contributed services were recorded. Contributed services are valued at the market rates for similar services.

In-kind contributions of land, buildings, equipment, and goods and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the Company's activities. During the year ended June 30, 2023, $16,140 of in-kind contributions of goods and materials were recorded. Contributed goods and materials are used for program, management and general, and fundraising and are valued at the estimated price that would be received for selling similar products in the United States.

Advertising and Promotion – Advertising and promotion costs are charged to expense as they are incurred or the first time the advertising takes place. Advertising costs for the year ended June 30, 2023 totaled $131,161.

Operating Results – Operating results reported in the statement of activities reflect all transactions that change net assets without donor restrictions, except for gains on the sale of capital assets, contribution restricted for capital improvements, and net assets released from restrictions for capital purposes.

Depreciation of capital assets is allocated to operating programs and supporting activities based on benefit estimates prepared by management.

Concentrations of Credit Risk – The Company's financial instruments consist primarily of cash and investments, which may subject the Company to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

All checking and savings accounts, and certificates of deposit are insured by the FDIC for up to $250,000 for each depositor, for each insured bank, for each account ownership category. At June 30, 2023, the Company held $274,459 in excess of FDIC insurance.

Finally, certain receivables may also, from time to time, subject the Company to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the Company's management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Income Taxes – The Company is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and derives its public charity status as an organization described in Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code.

Union Agreements – The Company participates in collective bargaining agreements with the Actors' Equity Association (for performing artists), Stage Directors and Choreographers Society (for directors and choreographers), and United Scenic Artists (for stage and production designers). The Company contributes to each union's pension and welfare plan on behalf of applicable union members employed by the Company, with contribution amounts determined based on a set percentage of the union member's salary.

Subsequent Events – Subsequent events have been evaluated by management through December 26, 2023, which is the date the financial statements were available to be issued. See notes 14, 16, and 17 for important subsequent event disclosures.

Summarized Financial Information for 2022– The accompanying financial information as of and for the year ended June 30, 2022 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

3. Recently Adopted Accounting Standards

In February of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which requires lessees to record right-of-use ("ROU") assets and related lease obligations on the statement of financial position for all leases with a term longer than 12 months. On July 1, 2022, the Company adopted ASU No. 2016-02, as amended.

At the time of adoption, and in accordance with ASU 2016-02, the Company elected the package of practical expedients to not reassess: 1) whether any expired or existing contracts are or contain a lease, 2) lease classification for any expired or existing leases, and 3) whether previously capitalized initial direct costs would qualify for capitalization under Topic 842.

The Company has also elected the short-term lease exemption policy which permits an organization to not recognize leases, at the commencement date, with a lease term of 12 months or less in its statement of financial position. The Company uses a risk-free rate at the date of adoption for discounting all leases, and has elected not to separate lease and non-lease components for all leases in the calculation of the ROU assets and lease obligations.

The Company elected the modified retrospective transition approach with the cumulative effect of application recognized at the effective date of adoption and comparative periods are not adjusted.

As a result of adoption, on July 1, 2022, the Company recognized operating ROU assets and operating lease liability of $81,837, which represents the present value of the remaining lease payments, discounted using a risk-free rate at the date of adoption measured over the remaining lease term. Comparative prior period information has not been restated. Also see note 6.

4. Contributions and Grants Receivable

Contributions and grants receivable totaled $165,330 at June 30, 2023, and are expected to be collected within one year.

These receivables carry the following restrictions:

Capital campaign	$	80,500
General operations		84,830
	$	165,330

Conditional Contributions

At June 30, 2023, the Company held an additional $1,500,000 in conditional contributions, including a promise of $500,000 for capital improvements conditioned upon raising additional matching funds and a promise of $1,000,000 for capital improvements conditioned on completion of certain construction benchmarks and obtaining sufficient funding for the project's completion. Subsequent to year-end $750,000 of the above conditions were met, or released by the donors.

5. Investments and Investment Return

Investments consist of the following at June 30, 2023:

U.S. Government Securities	$	1,377,562
Corporate and municipal bonds		2,236,836
Common stock		5,108
Total investments at fair value		3,619,506
Cash and cash equivalents		1,188,305
Certificate of deposit [1]		30,093
	$	4,837,904

[1] As a condition of a land use permit from the City of Portland to construct certain improvements to the Company's primary facilities in downtown Portland, the Company has established a certificate of deposit in the amount of $30,000 with U.S. Bank as trustee.

The Company's investments at June 30, 2023 are held for the following purposes:

Capital campaign	$	194,613
Other donor-restricted operating purposes		186,893
General operations		4,456,398
	$	4,837,904

Total return on investments and cash and cash equivalents for the year ended June 30, 2023 is as follows:

Interest and dividend income [2]	$	105,124
Net decline in the fair value of investments		(93,028)
Total investment return	$	12,096

[2] Investment income is presented net of external and direct internal investment expenses

6. Leases

The Company has entered into a variety of operating lease agreements for program facilities and equipment. ROU assets and associated lease liabilities have been recorded for these leases in accordance with Topic 842. These leases expire on various dates through June of 2024.

At June 20, 2023, The Company's ROU assets and corresponding lease liabilities for operating leases totaled $49,943.

Lease expense is recognized on a straight-line basis over the term of the lease. Some of the lease require variable payments for operating expenses which are expensed as incurred.

As of June 20, 2023, the weighted-average discount rate was 3.32%, and remaining weighted-average lease term for operating leases was .09 years.

Future Lease Payments

Operating lease payments are expected to be paid for each of the year ending June 30, 2024:

Lease payments	$	50,785
Less present value discount		(842)
Total lease liabilities	$	49,943

Rent expense related to these leases totaled $52,728 for the year ended June 30, 2023.

7. Property and Equipment

A summary of property and equipment at June 30, 2023 is as follows:

Land	$	1,265,500
Building and building Improvements		1,659,402
Theatre equipment		526,363
Office equipment		73,932
Artwork		6,750
Construction in progress		6,965,224
		10,497,171
Less accumulated depreciation		(1,384,116)
	$	9,113,055

8. Line of Credit

At June 30, 2023, the Company had an unsecured line of credit available in the amount of $200,000. The line carries an interest rate of 9.25%. There was no outstanding balance as of June 30, 2023.

9. Coronavirus Relief Funding

Federal and state governments established several new programs in response to the health and financial crisis resulting from the coronavirus. The Company benefited from these government programs, for the years ended June 30, 2023 and 2022, as follows:

		2023
American Rescue Plan Act Coronavirus State Fiscal Recovery Fund	$	224,850
Employee Retention Tax Credit		145,706
	$	370,556

		2022
Paycheck Protection Program	$	283,090
Shuttered Venue Operators Grant		389,994
Employee Retention Tax Credit		206,788
	$	879,872

10. Net Assets with Donor Restrictions

The following summarizes the Company' net assets with donor-imposed restrictions as of June 30, 2023:

Expendable net assets restricted for the following purposes:		
Playwrights-in-residence	$	377,084
Oxygen program		158,093
Productions		17,500
Other programs		49,356
Capital campaign		275,113
		877,146
Expendable net assets unrestricted as to purpose, but restricted as to time:		
Pledges to benefit the Company's general operations in future periods		84,830
Total net assets with donor restrictions	$	961,976

11. Net Assets Released from Restrictions

During the year ended June 30, 2023, the Company incurred $2,158,305 in expenses that satisfied restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events, as follows:

Net assets released from restrictions for operating purposes	$	585,239
Net assets released from restrictions for capital investment purposes		1,573,066
	$	2,158,305

12. Expenses

The costs of providing the various programs and activities of the Company have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Company, and therefore require allocation on a reasonable basis that is consistently applied. Those expenses include salaries and related costs, which are allocated on the basis of estimates of time and effort, and occupancy, office expenses, insurance, and depreciation which are allocated based on the basis of direct expenses of the various benefiting functions.

13. Retirement Plan

The Company offers its employees an independently-administered, tax-sheltered annuity plan, as described under Section 403(b) of the Internal Revenue Code. All employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law, from their date of hire. Contributions to the plan vest immediately. The Company makes no contributions to the plan.

14. Construction Commitments and Contingencies

The Company has entered into various contracts for the construction, renovation and rehabilitation of its arts center and, as of June 30, 2023, had remaining contractual commitments outstanding totaling $5,570,602 for completion of the project.

15. Fair Value

Included in the accompanying financial statements, the Company's investments are carried at fair value.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale; similarly, the fair value of a liability is the amount at which the liability could be transferred in a current transaction between willing parties. Fair values are based on quoted market prices when available.

When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

Investments have been classified for disclosure purposes based on a hierarchy defined under generally accepted accounting principles. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities and the lowest ranking to fair values determined using methodologies and models with unobservable inputs, as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

At June 30, 2023, the following financial assets are measured at fair value on a recurring basis:

		Level 1	Level 2	Total
Investments:				
U.S. government securities	$	1,377,562	–	1,377,562
Common stock		5,108	–	5,108
Corporate and municipal bonds		–	2,236,836	2,236,836
	$	1,382,670	2,236,836	3,619,506

16. Cancelation of the 2023-24 Season Due to Funding Limitations

Subsequent to June 30, 2023, the Company made the difficult decision to cancel the 2023-24 production season. This was due to the following:

- Funding for the arts sector in general has been challenging, and crucial specific funding did not materialize for the Company. Most notably, House Bill 2459 was not passed by the Oregon Legislature, resulting in an anticipated $250,000 in funding not being awarded as part of the proposed recovery funding for the arts and cultural sector in response to the negative effects of the COVID-19 Pandemic. The Company was surprised that the funding was not forthcoming, and did not have a contingency plan in place.

- In April 2023 the Company broke ground on a long-anticipated construction project to fully renovate its theater home. The costs for this construction are being funded from the Company's investments which had previously also been available and used to help address operational shortfalls. Strategically it was essential to begin construction as the costs of construction materials were increasing, and the Company's base of supporters was excited and growing restless to see the capital project progress. It was a risk in that by committing to a construction contract, the Company was aware of the need to aggressively fundraise for both the capital campaign and funding of productions and general operations.

- Unfortunately, the Company was unable to fundraise sufficiently for the costs of producing the 2023-24 season and made the difficult decision to focus all of its fundraising efforts on the larger goal of completing the current phase of the construction project. The completion of this phase will result in re-inhabiting the theater in spring 2024, and utilizing the spacious lobby as performance space. This is a key strategic goal in being able to produce future work and galvanize support for the ultimate completion of the renovation.

- Finally, in fiscal year 2023 the Company continued to struggle with gaining audience and donors post-Pandemic. The Company discovered that, like many other arts and cultural institutions, the return to full houses would be long and slow. Although ticket sales increased steadily over the course of the 2023 season, the Company still reported an approximately 30% downturn in sales over previous years. The final show of the season ended very strong but ultimately wasn't enough to meet revenue goals, and the Company fiscal 2023 year with a significant deficit.

17. Liquidity, Future Plans, and Availability of Financial Assets

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the organization as a going concern. The Company has sustained significant operating losses in past years. The Company reported an operating deficit of $1,104,160 for the year ended June 30, 2023.

In order to satisfy its ongoing operating and cash needs, the Company recognizes that it must generate positive cash flow from its primary operations. Accordingly, in fiscal year 2024, the Company took several key steps to improve its overall financial position, including the following:

- The Company has reduced as many operating expenses as possible including the laying off of three staff members and reducing monthly services to the essential minimum, such as decreasing database fees based on the number of users, renegotiating phone and internet service, refining insurance coverage, and other necessary cost saving measures.

- The Company is monitoring cash flow on a weekly basis to ensure that sufficient operational funds are available and that revenue is being generated via individual contributions and grant awards.

- The Company is currently focusing staff resources on fundraising via individual contributions and aggressively applying for grants.

Financial assets available for general expenditures within one year of the statement of financial position date comprise the following at June 30, 2023:

Total financial assets available at June 30, 2023:		
Cash and cash equivalents	$	596,176
Contributions and grants receivable		165,330
Investments		4,837,904
		5,599,410
Less financial assets currently held, but not available to fund operations within the year ending June 30, 2024:		
Financial assets restricted by donors to capital investment		(275,113)
Construction payable at June 30, 2023		(811,655)
Other funds committed by contracts for construction expected to be completed in 2024		(5,265,396)
Certificate of deposit held by trustee for future construction *(note 5)*		(30,093)
		(6,382,257)
	$	(782,847)

18. Statement of Cash Flow Reconciliation

The following presents a reconciliation of the decrease in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows):

Decrease in net assets	$	(687,048)
Adjustments to reconcile decrease in net assets used in operating activities:		
Depreciation		55,360
Amortization of ROU assets – operating leases		52,728
Net decrease in the fair value of investments		93,028
Proceeds from contributions restricted for future long-term capital investment		(455,232)
Net changes in:		
Contributions and grants receivable		57,842
Deferred charges, prepaid expenses, and other assets		86,764
Accounts payable and accrued expenses		26,018
Deferred revenues – advance ticket sales		(35,950)
Lease liability – operating leases		(52,728)
Total adjustments		(172,170)
Net cash used in operating activities	$	(859,218)

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GOVERNING BOARD AND COMPANY LEADERSHIP

Leadership

J.S. May
Executive Director

Jeanette Harrison
Artistic Director

Luan Schooler
Director of New Works

INQUIRIES AND OTHER INFORMATION

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