

**CALIFORNIA MUSICAL THEATRE
AND AFFILIATE**

**CONSOLIDATED FINANCIAL
STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2016 AND 2015**

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
California Musical Theatre
Sacramento, California**

We have audited the accompanying consolidated financial statements of California Musical Theatre and Affiliate, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

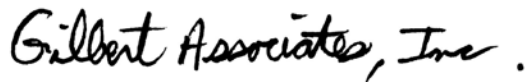
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of California Musical Theatre and Affiliate as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating statements on pages 14 through 17 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Gilbert Associates, Inc." with a period at the end. The script is cursive and fluid.

GILBERT ASSOCIATES, INC.
Sacramento, California

May 2, 2017

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,487,432	\$ 2,581,682
Restricted cash	671,045	930,018
Prepaid expenses	443,394	718,475
Accounts and contributions receivable	63,438	58,299
Other current assets	<u>291,370</u>	<u>167,589</u>
Total current assets	3,956,679	4,456,063
NONCURRENT ASSETS:		
Restricted cash	777,583	2,071,661
Investments	683,150	561,215
Contributions receivable, net	10,000	15,000
Property and equipment, net	11,966,067	12,160,337
Other assets	<u>275,503</u>	<u>316,975</u>
TOTAL ASSETS	<u>\$ 17,668,982</u>	<u>\$ 19,581,251</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 202,869	\$ 301,231
Accrued expenses	744,333	665,650
Current portion of capital lease obligation	280,562	397,390
Deferred revenues	<u>4,768,403</u>	<u>4,806,649</u>
Total current liabilities	5,996,167	6,170,920
CAPITAL LEASE OBLIGATION, Net	<u>7,375,433</u>	<u>10,786,571</u>
Total liabilities	<u>13,371,600</u>	<u>16,957,491</u>
NET ASSETS:		
Unrestricted	4,239,382	2,600,760
Temporarily restricted	<u>58,000</u>	<u>23,000</u>
Total net assets	<u>4,297,382</u>	<u>2,623,760</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,668,982</u>	<u>\$ 19,581,251</u>

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS:		
REVENUES:		
Ticket sales	\$ 14,219,541	\$ 10,710,389
Contributions	1,849,890	1,568,738
Facility fees and contributions designated for		
H Street project	726,724	917,272
Box office handling	282,775	263,325
Concessions	249,072	241,930
Program advertising	121,088	93,458
Costume rentals and other	97,840	140,484
Interest and investment income	77,539	54,217
Net assets released from restrictions	13,000	11,500
Total revenues	<u>17,637,469</u>	<u>14,001,313</u>
EXPENSES:		
Theatrical productions:		
Show costs and expenses	12,773,204	9,563,831
Box office costs	547,165	510,224
Operations	267,392	252,422
Concessions expenses	137,491	148,809
Education expenses	382,332	341,035
Total program expenses	<u>14,107,584</u>	<u>10,816,321</u>
Supporting services:		
General and administrative expenses	2,511,984	2,489,386
Fundraising	439,003	363,292
Total expenses	<u>17,058,571</u>	<u>13,668,999</u>
INCOME FROM OPERATIONS	578,898	332,314
GAIN ON CAPITAL LEASE REFINANCE	<u>1,059,724</u>	<u> </u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>1,638,622</u>	<u>332,314</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions - time restricted	48,000	8,000
Net assets released from restrictions	<u>(13,000)</u>	<u>(11,500)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>35,000</u>	<u>(3,500)</u>
INCREASE IN NET ASSETS	1,673,622	328,814
NET ASSETS, Beginning of Year	<u>2,623,760</u>	<u>2,294,946</u>
NET ASSETS, End of Year	<u>\$ 4,297,382</u>	<u>\$ 2,623,760</u>

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,673,622	\$ 328,814
Reconciliation to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(41,275)	(5,978)
Loss on disposal of property and equipment		186,656
Depreciation	491,437	469,339
Amortization of debt issuance costs	17,438	3,675
Changes in:		
Prepaid expenses	275,081	(410,287)
Accounts and contributions receivable	(139)	355
Other assets	(23,503)	(88,456)
Accounts payable	(98,362)	(17,799)
Accrued expenses	78,683	177,014
Deferred revenues	(38,246)	1,643,789
Net cash provided by operating activities	<u>2,334,736</u>	<u>2,287,122</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(133,356)	(247,348)
Proceeds from sale of investments	52,696	324,289
Purchases of property and equipment	(297,167)	(40,837)
Net cash provided (used) by investing activities	<u>(377,827)</u>	<u>36,104</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from refinance of capital lease obligation	8,455,000	
Payment on capital lease obligations	(11,762,767)	(382,045)
Payment of debt issuance costs	(296,443)	
Principal payments on note payable		(285,998)
Use of (payments to) restricted cash	1,553,051	(137,642)
Net cash used by financing activities	<u>(2,051,159)</u>	<u>(805,685)</u>
NET INCREASE (DECREASE) IN CASH	(94,250)	1,517,541
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,581,682</u>	<u>1,064,141</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 2,487,432</u>	<u>\$ 2,581,682</u>
NON-CASH ACTIVITY:		
Property and equipment acquired through note payable	\$ _____	\$ 285,998
SUPPLEMENTAL ACTIVITY:		
Interest paid	<u>\$ 444,694</u>	<u>\$ 550,480</u>

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

California Musical Theatre (CMT) is a California nonprofit corporation. CMT annually produces and presents two seasons of theatrical productions in Sacramento, California. Music Circus productions are performed in the Wells Fargo Pavilion and Broadway Sacramento productions are presented in the Sacramento Community Center Theater. CMT also provides educational programming for all ages, including professional development for teachers, advanced training in musical theatre and dance, a comprehensive technical theatre internship program, and opportunities for the underserved community to see live theatre.

The California Musical Theatre Foundation (Foundation) was formed in 2001 with the specific purpose to encourage, support, and promote, the maintenance, enhancement, and expansion of the California Musical Theatre in the Sacramento region and beyond.

Principles of consolidation – The accompanying financial statements reflect the consolidation of CMT and the Foundation (collectively, the Company). CMT's Board of Directors approves the Foundation's Board of Directors and has an economic interest in the Foundation. The organizations share common facilities and personnel. Material intercompany transactions and balances have been eliminated.

Basis of presentation – The consolidated financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Company reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Company's temporarily restricted net assets consist of amounts received or pledged to support future periods. The Company has no permanently restricted net assets.

Cash and cash equivalents – For purposes of the statements of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents, unless held for long term purposes.

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.

Restricted cash consists of facility fees charged as an addition to Music Circus ticket prices which are used to retire the debt obligation to the City of Sacramento. See Note 4 for additional details.

Investments – The Company's investments in mutual funds are stated at fair value based on published quoted prices. Certificates of deposit are stated at cost. Investments in theatrical productions are stated at the lower of cost or fair value.

Property and equipment are stated at cost, if purchased, or at fair value, if contributed. Property and equipment under the capital lease in connection with renovation and construction of the H Street Project are recorded at their fair value at the date of acquisition, measured as the present value of the payments under the lease obligation upon execution of the lease agreement. Property and equipment with a cost greater than \$1,000 are capitalized. Depreciation is computed using the straight-line method over estimated useful lives ranging from 3 to 40 years.

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Theatrical performance revenue and cost recognition – Receipts from the advance sale of tickets are recorded as deferred revenue and costs incurred relative to future performances are recorded as prepaid expenses. When the performances occur, the related deferred revenue and prepaid expenses are recorded as revenues and expenses. At December 31, 2016 and 2015, the Company had deferred revenue from ticket sales for future performances of \$4,768,403 and \$4,806,649 respectively and prepaid costs of future performances of \$283,942 and \$549,362, respectively.

Contributions and promises to give are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the Statement of Activities as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purpose. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted.

Advertising costs – Direct response advertising costs promoting future performances are recorded as prepaid expenses and are expensed when the related performances occur. Advertising expenses for the years ended December 31, 2016 and 2015 totaled \$1,316,351 and \$1,111,131, respectively. Prepaid costs of future performances include prepaid advertising expense totaling \$118,352 and \$169,968 at December 31, 2016 and 2015, respectively.

Interest expense – The Company incurs interest under its capital lease obligations described in Note 4. Interest expense for the years ended December 31, 2016 and 2015 totaled \$367,994 and \$560,119, respectively.

Income tax status – CMT is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and similar state statutes, and is exempt from federal and state income taxes on its theatrical operations. Under certain circumstances, CMT may be liable for income taxes on unrelated business income pursuant to Section 501(b) of the Internal Revenue Code. The Foundation is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes.

The Company has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements.

Functional allocation of expenses – The Company's operational expenses are summarized on a functional basis in the statements of activities. For the years ended December 31, 2016 and 2015, the Company conducted activities that included theatrical productions, outreach and education, fundraising, and general and administrative activities. The costs of conducting those activities include employee salaries and benefits and other operational costs. Costs specifically attributable to specific functions are allocated directly to those functions. Indirect costs are allocated entirely to general and administrative expenses.

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Subsequent events have been reviewed through May 2, 2017, the date the financial statements were issued. Management concluded that all material subsequent events have been disclosed that require recognition or disclosure in the financial statements.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the asset or liability.

Recent accounting pronouncements – In April 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to simplify the presentation of debt issuance costs. The ASU is to be applied retrospectively, and is effective for fiscal years beginning after December 15, 2015 resulting in changes to certain 2015 amounts to be consistent with the 2016 financial statement presentation. Management has implemented the ASU in 2016. Debt issuance costs previously capitalized as a stand-alone asset are now netted with the related debt on the statements of financial position. Implementation of the ASU did not have an impact on the Company's net assets or change in net assets.

2. INVESTMENTS

Investments in mutual funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. There were no fair value adjustments for certificates of deposit or investments in theatrical productions during 2016 or 2015.

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Investments consist of the following:

	<u>2016</u>	<u>2015</u>
Mutual funds - equity funds:		
Mid-cap blend	\$ 92,147	\$ 76,483
Large blend	71,236	62,071
World allocation	65,018	58,761
Large value	56,307	49,693
Large growth	53,018	49,760
Conservative allocation	34,714	29,770
Moderate allocation	3,361	3,098
Mutual funds – bond funds		
Certificates of deposit	200,057	231,579
Investments in theatrical productions	<u>107,292</u>	<u> </u>
Total	<u>\$ 683,150</u>	<u>\$ 561,215</u>

Interest and investment income consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 36,264	\$ 48,239
Net realized and unrealized gain on investments	<u>41,275</u>	<u>5,978</u>
Total	<u>\$ 77,539</u>	<u>\$ 54,217</u>

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Buildings	\$ 15,053,288	\$ 14,994,916
Machinery and equipment	1,582,031	1,489,242
Land	1,130,049	1,130,049
Furniture and fixtures	678,873	666,751
Leasehold improvements	223,283	217,150
Autos and trucks	127,956	83,206
Costumes	<u>73,282</u>	<u>73,282</u>
Total	18,868,762	18,654,596
Less accumulated depreciation	<u>(6,902,695)</u>	<u>(6,494,259)</u>
Total	<u>\$ 11,966,067</u>	<u>\$ 12,160,337</u>

Included in the amounts above are property and equipment under capital lease with a net book value of \$9,783,935 and \$9,999,560 at December 31, 2016 and 2015, respectively (See Note 4).

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

4. H STREET PROJECT

The Company's Music Circus theatre (Wells Fargo Pavilion) resides on a parcel of land known as the G Street Property. An adjacent theater facility that resides on a parcel known as the H Street Property is used during productions in the Wells Fargo Pavilion. Beginning in 2000, the Company, along with the City of Sacramento (City), County of Sacramento (County) and the Sacramento Theater Company (STC) initiated a project to renovate the G Street Property and reconstruct the H Street Property (the H Street Project). In August 2002, financing for the renovation project was obtained under an arrangement whereby the City and the County formed a joint powers authority (Authority) that sold tax-exempt debt instruments totaling \$16,580,000 to finance the renovation project. The Authority retained certain amounts of the proceeds from the debt instruments as a debt service reserve fund and used the balance for the costs of the renovation.

After the renovation was complete, the Company leased the G Street Property and the H Street Property (Facility Lease) from the Authority. The Facility Lease obligates the Company to make semi-annual minimum lease payments through September 2032. Under the terms of the Facility Lease, the Company is required to collect a facility fee on all tickets sold for performances at the G Street Property until payment in full of all amounts due. The Company is required to hold all such facility fee proceeds in a depository account restricted for payments under the Facility Lease.

Upon completion of all payments of amounts due under the Facility Lease, the title of the G Street Property will transfer to the Company while the title to the H Street Property will remain with the Authority. The Facility Lease has been accounted for as a capital lease obligation. As such, the present value of the minimum lease payments at the inception of the lease was recorded as a liability.

The assets resulting from the capital lease obligation and other capital acquisitions in connection with the project are being amortized over their estimated useful lives of up to 40 years. The Facility Lease is collateralized by the leased facility and revenues from the Music Circus performances.

The Facility Lease contains various covenants, which among other things, limits additional debt or guarantees. Management believes the Company is in compliance with all terms and covenants of the Facility Lease and related agreements.

In 2016, the City refinanced the facility lease through its Sacramento Public Financing Authority, in the amount of \$9,115,000. The new financing became effective March 1, 2016 and is structured as a lease-leaseback, as before, however it is secured by general fund appropriations of the City; Sacramento County no longer has any responsibilities for the debt payments. Principal and interest payments are due semi-annually each March 1st and September 1st beginning on September 1, 2016 and ending September 1, 2032. The Company expects annual savings of approximately \$388,000 as a result of this refinance. The original financing included restricted debt service funds of \$1,062,500 to be held and invested by the Authority, which were used as a source of funds to retire the original debt. The reduction in capital lease obligation derived from the refinance, less payments made by the Company and the write off of previously capitalized debt issuance costs, resulted in the recognition of a gain of \$1,059,724 in 2016.

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

In addition to the minimum lease payments under the Facility Lease, the Company is obligated to accumulate funds for debt service under a monthly schedule as defined in an agreement with the City. Such amounts, along with investment earnings thereon, are restricted for debt service payments; however, these restricted deposits are assessed by the City after the September debt service payment each year and any balances in excess of the next year's debt service payment obligations are returned to the Company and no longer restricted for debt service payments.

After the final capital lease payment is made, the Company's Facility Lease with the City, facility sublease with STC described below, and the land lease with the City will terminate. The parties have executed an agreement to enter into good faith negotiations for continuation of the use of the H Street Property under terms similar to the prior Facility Lease upon termination of the Facility Lease.

Debt service payments as of December 31, 2016 are as follows:

<u>Year Ending December 31:</u>	<u>Future Payments</u>
2017	\$ 539,045
2018	541,762
2019	539,053
2020	540,989
2021	542,570
Thereafter	<u>7,391,259</u>
Total	10,094,678
Less amounts representing interest	<u>(2,159,678)</u>
Capital lease obligation	7,935,000
Less current portion	<u>(298,000)</u>
Capital lease obligation, net	<u>\$ 7,637,000</u>

In connection with the 2016 refinancing, the Company incurred debt issuance costs totaling \$296,443. Debt issuance costs are recorded as a reduction of the capital lease obligation on the consolidated statements of financial position and amortized to interest expense over the term of the financing. The capital lease obligation and unamortized debt issue costs are as follows:

	<u>2016</u>	<u>2015</u>
Current portion of capital lease obligation	\$ 298,000	\$ 401,065
Less: current portion of unamortized debt issuance costs	<u>(17,438)</u>	<u>(3,675)</u>
Current portion of capital lease obligation, net	<u>280,562</u>	<u>397,390</u>
Noncurrent portion of capital lease obligation	7,637,000	10,841,702
Less: noncurrent portion of unamortized debt issuance costs	<u>(261,567)</u>	<u>(55,131)</u>
Noncurrent portion of capital lease obligation, net	<u>7,375,433</u>	<u>10,786,571</u>
Total capital lease obligation, net of debt issuance costs	<u>\$ 7,655,995</u>	<u>\$ 11,183,961</u>

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Under the Facility Lease, the Company is obligated to repair and maintain the G Street Property and H Street Property. To provide funds for major repairs, the Company is obliged to deposit \$30,000 per year (\$28,500 per year if the Capital Reserve Account balance is above \$50,000 as of July 1 of each year) to the City for up to 17 years, which, along with accumulated interest thereon, will be available to reimburse the Company for major repair costs. These annual payments are accounted for as prepaid expenses when deposited, and expensed or capitalized, depending on the nature of the cost, when expended.

Concurrent with the Facility Lease, the Company executed a sublease agreement (Facility Sublease) with STC for the same period as the Facility Lease. Under the Facility Sublease, the H Street Property is subleased to STC under terms providing that the Company has primary use of the H Street Property for three months of the year and STC has primary use of the H Street Property for the other nine months of the year. The use of the H Street Property is necessary for the Company to conduct events at the G Street Property. STC is required by the Facility Sublease to charge a facility fee of at least \$2.50 per ticket sold and pay all such facility fee proceeds to the Company as sublease payments.

STC is required to generate \$91,000 of facility fees annually during the Facility Sublease term. In the event that STC fails to generate the agreed upon amount of facility fees by amounts stipulated in the Facility Sublease, STC would be in default and the Company would have certain additional rights as to the use of the H Street Property. Sublease rental income is recorded as a component of facility fees and contributions designated for the H Street Project on the statements of activities and totaled \$88,049 and \$98,488 for the years ended December 31, 2016 and 2015, respectively. The Company accounts for the Facility Sublease as an operating lease.

5. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases certain equipment and facilities under long-term operating lease agreements, which expire at various dates through 2020. Rental expense in connection with these operating lease agreements for 2016 and 2015 was \$292,226 and \$285,238, respectively. Future minimum payments for the operating leases are as follows:

Year Ending December 31:

2017	\$ 291,355
2018	189,978
2019	147,512
2020	<u>4,601</u>
Total	<u>\$ 633,446</u>

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

6. EMPLOYEE BENEFIT PLAN

The Company sponsors the California Musical Theatre 401(k) Employee Benefit Plan (Plan) for eligible employees. The 401(k) Employee Benefit Plan provides employees the opportunity to have a specific pretax percentage or dollar amount withheld from their salary and have such amount deposited directly into a 401(k) account on their behalf. In addition, if employees satisfy the eligibility conditions of the Plan, they may be eligible to receive an additional employer contribution. The additional employer contribution covers substantially all full-time employees at least 21 years of age with more than one year of employment and 1,000 hours of service.

The Company's contributions to the Plan were determined using formulas provided in the Plan agreement and vest ratably over five years. The Company contributes to the plan annually based upon a June 30 closing date. Contributions for the Plan's June 30, 2016 and 2015 year ends were \$63,088 and \$52,213, respectively. The next contribution date will not take place until the Plan year end of June 30, 2017.

7. LOAN AGREEMENTS

The Company has a revolving loan agreement with the City of Sacramento, which provides the Company up to \$300,000 to assist with operating costs incurred in producing theatrical events. The loan is to be evidenced by a promissory note and secured by a deed of trust on the real property at 1422 G Street, Sacramento, CA. The revolving loan is scheduled to terminate on April 15, 2018. Interest is at a rate equal to the City's annual earnings rate on Pool A funds for the previous fiscal year, plus two percentage points, per annum. As of December 31, 2016 and 2015, there were no draws taken from this account and no outstanding balance due.

Effective March 25, 2015, the Company entered into a loan agreement with Zion Credit Corporation dba CB&T Equipment Finance to finance repairs to its turntable system installed at the Wells Fargo Pavilion. The loan carried an interest rate of 3.95% and required monthly payments of \$5,261 through April 2020. The loan was paid in full on November 30, 2015.

8. RELATED PARTY TRANSACTIONS

A member of the CMT Board of Directors is the president of a company from which CMT purchases printing services. These purchases totaled \$252,073 and \$243,833 for the years ended December 31, 2016 and 2015, respectively.

The Foundation's investment advisor is a member of the CMT Board of Directors.

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL DECEMBER 31, 2016

	<u>CMT</u>	<u>Foundation</u>	<u>Consolidated</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 2,444,365	\$ 43,067	\$ 2,487,432
Restricted cash	671,045		671,045
Prepaid expenses	443,394		443,394
Accounts and contributions receivable	63,438		63,438
Other current assets	<u>291,370</u>		<u>291,370</u>
Total current assets	3,913,612	43,067	3,956,679
NONCURRENT ASSETS:			
Restricted cash	777,583		777,583
Investments	107,292	575,858	683,150
Contributions receivable, net	10,000		10,000
Property and equipment, net	11,966,067		11,966,067
Other assets	<u>275,503</u>		<u>275,503</u>
TOTAL ASSETS	<u>\$ 17,050,057</u>	<u>\$ 618,925</u>	<u>\$ 17,668,982</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 202,869		\$ 202,869
Accrued expenses	744,333		744,333
Current portion of capital lease obligation	280,562		280,562
Deferred revenues	<u>4,768,403</u>		<u>4,768,403</u>
Total current liabilities	5,996,167		5,996,167
CAPITAL LEASE OBLIGATION, Net	<u>7,375,433</u>		<u>7,375,433</u>
Total liabilities	<u>13,371,600</u>		<u>13,371,600</u>
NET ASSETS:			
Unrestricted	3,620,457	\$ 618,925	4,239,382
Temporarily restricted	<u>58,000</u>		<u>58,000</u>
Total net assets	<u>3,678,457</u>	618,925	<u>4,297,382</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,050,057</u>	<u>\$ 618,925</u>	<u>\$ 17,668,982</u>

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL DECEMBER 31, 2015

	<u>CMT</u>	<u>Foundation</u>	<u>Consolidated</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 2,569,591	\$ 12,091	\$ 2,581,682
Restricted cash	930,018		930,018
Prepaid expenses	718,475		718,475
Accounts and contributions receivable	58,299		58,299
Other current assets	<u>167,589</u>		<u>167,589</u>
Total current assets	4,443,972	12,091	4,456,063
NONCURRENT ASSETS:			
Restricted cash	2,071,661		2,071,661
Investments		561,215	561,215
Contributions receivable, net	15,000		15,000
Property and equipment, net	12,160,337		12,160,337
Other assets	<u>316,975</u>		<u>316,975</u>
TOTAL ASSETS	<u>\$ 19,007,945</u>	<u>\$ 573,306</u>	<u>\$ 19,581,251</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 301,231		\$ 301,231
Accrued expenses	665,650		665,650
Current portion of capital lease obligation	397,390		397,390
Deferred revenues	<u>4,806,649</u>		<u>4,806,649</u>
Total current liabilities	6,170,920		6,170,920
CAPITAL LEASE OBLIGATION, Net	<u>10,786,571</u>		<u>10,786,571</u>
Total liabilities	<u>16,957,491</u>		<u>16,957,491</u>
NET ASSETS:			
Unrestricted	2,027,454	\$ 573,306	2,600,760
Temporarily restricted	<u>23,000</u>		<u>23,000</u>
Total net assets	<u>2,050,454</u>	<u>573,306</u>	<u>2,623,760</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,007,945</u>	<u>\$ 573,306</u>	<u>\$ 19,581,251</u>

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES - SUPPLEMENTAL YEAR ENDED DECEMBER 31, 2016

UNRESTRICTED NET ASSETS:	<u>CMT</u>	<u>Foundation</u>	<u>Consolidated</u>
REVENUES:			
Ticket sales	\$ 14,219,541		\$ 14,219,541
Contributions	1,848,917	\$ 973	1,849,890
Facility fees and contributions designated for H Street project	726,724		726,724
Box office handling	282,775		282,775
Concessions	249,072		249,072
Program advertising	121,088		121,088
Costume rentals and other	97,840		97,840
Interest and investment income	29,149	48,390	77,539
Net assets released from restrictions	13,000		13,000
Total revenues	<u>17,588,106</u>	<u>49,363</u>	<u>17,637,469</u>
EXPENSES:			
Theatrical productions:			
Show costs and expenses	12,773,204		12,773,204
Box office costs	547,165		547,165
Operations	267,392		267,392
Concessions expenses	137,491		137,491
Education expenses	<u>382,332</u>		<u>382,332</u>
Total program expenses	14,107,584		14,107,584
Supporting services:			
General and administrative expenses	2,508,240	3,744	2,511,984
Fundraising	<u>439,003</u>		<u>439,003</u>
Total expenses	<u>17,054,827</u>	<u>3,744</u>	<u>17,058,571</u>
INCOME FROM OPERATIONS	533,279	45,619	578,898
GAIN ON CAPITAL LEASE REFINANCE	<u>1,059,724</u>		<u>1,059,724</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>1,593,003</u>	<u>45,619</u>	<u>1,638,622</u>
TEMPORARILY RESTRICTED NET ASSETS:			
Contributions - time restricted	48,000		48,000
Net assets released from restrictions	<u>(13,000)</u>		<u>(13,000)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>35,000</u>		<u>35,000</u>
INCREASE IN NET ASSETS	1,628,003	45,619	1,673,622
NET ASSETS, Beginning of Year	<u>2,050,454</u>	<u>573,306</u>	<u>2,623,760</u>
NET ASSETS, End of Year	<u>\$ 3,678,457</u>	<u>\$ 618,925</u>	<u>\$ 4,297,382</u>

CALIFORNIA MUSICAL THEATRE AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES - SUPPLEMENTAL YEAR ENDED DECEMBER 31, 2015

UNRESTRICTED NET ASSETS:	<u>CMT</u>	<u>Foundation</u>	<u>Consolidated</u>
REVENUES:			
Ticket sales	\$ 10,710,389		\$ 10,710,389
Contributions	1,567,611	\$ 1,127	1,568,738
Facility fees and contributions designated for H Street project	917,272		917,272
Box office handling	263,325		263,325
Concessions	241,930		241,930
Program advertising	93,458		93,458
Costume rentals and other	140,484		140,484
Interest and investment income (loss)	66,658	(12,441)	54,217
Net assets released from restrictions	11,500		11,500
Total revenues	<u>14,012,627</u>	<u>(11,314)</u>	<u>14,001,313</u>
EXPENSES:			
Theatrical productions:			
Show costs and expenses	9,563,831		9,563,831
Box office costs	510,224		510,224
Operations	252,422		252,422
Concessions expenses	148,809		148,809
Education expenses	<u>341,035</u>		<u>341,035</u>
Total program expenses	10,816,321		10,816,321
Supporting services:			
General and administrative expenses	2,485,341	4,045	2,489,386
Fundraising	<u>363,292</u>		<u>363,292</u>
Total expenses	<u>13,664,954</u>	<u>4,045</u>	<u>13,668,999</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>347,673</u>	<u>(15,359)</u>	<u>332,314</u>
TEMPORARILY RESTRICTED NET ASSETS:			
Contributions - time restricted	8,000		8,000
Net assets released from restrictions	<u>(11,500)</u>		<u>(11,500)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(3,500)</u>		<u>(3,500)</u>
INCREASE (DECREASE) IN NET ASSETS	344,173	(15,359)	328,814
NET ASSETS, Beginning of Year	<u>1,706,281</u>	<u>588,665</u>	<u>2,294,946</u>
NET ASSETS, End of Year	<u>\$ 2,050,454</u>	<u>\$ 573,306</u>	<u>\$ 2,623,760</u>