

**BROADWAY SACRAMENTO
AND AFFILIATE**

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

**YEARS ENDED
DECEMBER 31, 2018 AND 2017**

BROADWAY SACRAMENTO AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Broadway Sacramento
Sacramento, California**

We have audited the accompanying consolidated financial statements of Broadway Sacramento and Affiliate, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and 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 Broadway Sacramento and Affiliate as of December 31, 2018 and 2017, 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 17 through 20 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

May 7, 2019

BROADWAY SACRAMENTO AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,617,279	\$ 3,401,301
Restricted cash	800,210	673,762
Prepaid expenses	836,940	451,364
Accounts and contributions receivable	42,150	147,526
Other current assets	<u>199,059</u>	<u>143,609</u>
Total current assets	5,495,638	4,817,562
NONCURRENT ASSETS:		
Restricted cash	621,924	656,760
Investments	862,705	562,330
Contributions receivable, net		5,000
Property and equipment, net	11,601,748	11,756,309
Other assets	<u>338,973</u>	<u>295,315</u>
TOTAL ASSETS	<u>\$ 18,920,988</u>	<u>\$ 18,093,276</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 317,934	\$ 208,141
Accrued expenses	702,188	503,913
Current portion of capital lease obligation	305,562	295,562
Current portion of note payable	45,772	39,669
Deferred revenues	<u>6,123,083</u>	<u>5,632,560</u>
Total current liabilities	7,494,539	6,679,845
NOTE PAYABLE, Net	34,333	23,227
CAPITAL LEASE OBLIGATION, Net	<u>6,774,309</u>	<u>7,079,871</u>
Total liabilities	<u>14,303,181</u>	<u>13,782,943</u>
NET ASSETS:		
Without donor restrictions	4,582,774	4,279,694
With donor restrictions	<u>35,033</u>	<u>30,639</u>
Total net assets	<u>4,617,807</u>	<u>4,310,333</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,920,988</u>	<u>\$ 18,093,276</u>

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

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Ticket sales	\$ 14,451,099	\$ 12,113,648
Contributions	1,811,606	1,829,652
Facility fees and contributions designated for		
H Street project	670,639	686,139
Box office handling	511,024	285,439
Concessions	314,786	285,765
Program advertising	104,751	86,089
Costume rentals and other	63,877	64,330
Interest and investment income (loss)	(27,019)	72,911
Net assets released from restrictions	15,639	33,000
Total revenues	<u>17,916,402</u>	<u>15,456,973</u>
EXPENSES:		
Theatrical productions	14,078,447	12,110,279
Educational programs	391,941	340,097
Total program expenses	14,470,388	12,450,376
Supporting services:		
General and administrative expenses	2,701,112	2,523,484
Fundraising	441,822	442,801
Total expenses	<u>17,613,322</u>	<u>15,416,661</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>303,080</u>	<u>40,312</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions - time restricted	20,033	5,639
Net assets released from restrictions	(15,639)	(33,000)
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>4,394</u>	<u>(27,361)</u>
INCREASE IN NET ASSETS	307,474	12,951
NET ASSETS, Beginning of Year	<u>4,310,333</u>	<u>4,297,382</u>
NET ASSETS, End of Year	<u>\$ 4,617,807</u>	<u>\$ 4,310,333</u>

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

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	<u>Theatrical Productions</u>	<u>Educational Programs</u>	<u>Management and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Producer/Author share, guarantee	\$ 5,787,511				\$ 5,787,511
Personnel	2,848,315	\$ 269,530	\$ 1,400,087	\$ 132,891	4,650,823
Advertising/Marketing	1,195,948	3,209	102,920	16,659	1,318,736
Payroll taxes	466,270	39,675	127,658	13,814	647,417
Costume, scenic, prop and other show related	580,469	1,422			581,891
Depreciation and amortization	528,220		44,645		572,865
Rent	352,156		115,963		468,119
Health benefits	248,928	11,725	132,168	5,707	398,528
Bank fees	357,244	552	11,333	18,949	388,078
Travel, housing & transportation	351,798	1,638	17,754		371,190
Pensions/Annuities	254,801	1,966	37,506	4,223	298,496
Interest expense	17,438		225,597		243,035
Ticketing system/Ticket fees	238,638				238,638
Professional services	64,117	28,060	129,943	5,933	228,053
Occupancy	201,416		2,309		203,725
Event				185,520	185,520
Rental expenses	104,486	10,147	27,386		142,019
Telecommunications	31,045		109,220		140,265
Insurance	67,652		61,505		129,157
Supplies	112,015	467	15,783		128,265
Repairs and maintenance	68,572		7,952		76,524
Parking	49,729	413	24,515		74,657
Postage/Shipping	51,352	98	4,885	4,309	60,644
Other payroll related	36,386		20,157		56,543
Equipment & Software	10,137		15,748	8,061	33,946
Other expense	<u>53,804</u>	<u>23,039</u>	<u>66,078</u>	<u>45,756</u>	<u>188,677</u>
Total	<u>\$ 14,078,447</u>	<u>\$ 391,941</u>	<u>\$ 2,701,112</u>	<u>\$ 441,822</u>	<u>\$ 17,613,322</u>

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

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	<u>Theatrical Productions</u>	<u>Educational Programs</u>	<u>Management and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Producer/Author share, guarantee	\$ 4,713,085				\$ 4,713,085
Personnel	2,651,194	\$ 233,111	\$ 1,328,593	\$ 122,853	4,335,751
Advertising/Marketing	988,448	614	86,520	14,525	1,090,107
Payroll taxes	472,816	35,121	122,577	13,881	644,395
Costume, scenic, prop and other show related	434,757	1,592			436,349
Depreciation and amortization	498,606		15,393		513,999
Rent	316,859		115,963		432,822
Health benefits	241,861	12,497	122,530	5,083	381,971
Bank fees	292,283	502	12,903	20,920	326,608
Travel, housing & transportation	326,310	320	16,509		343,139
Pensions/Annuities	227,688	3,611	49,666	2,886	283,851
Interest expense	17,438		237,981		255,419
Ticketing system/Ticket fees	134,671				134,671
Professional services	53,457	23,500	124,425	6,000	207,382
Occupancy	189,160		2,328		191,488
Event				161,889	161,889
Rental expenses	118,778	4,031	25,094		147,903
Telecommunications	20,604		76,359		96,963
Insurance	69,763		58,780		128,543
Supplies	114,322	986	12,412		127,720
Repairs and maintenance	41,596		7,392		48,988
Parking	28,653	644	10,586		39,883
Postage/Shipping	63,601		8,708	4,335	76,644
Other payroll related	33,495		17,938		51,433
Equipment & Software	19,618		7,313	6,579	33,510
Other expense	41,216	23,568	63,514	83,850	212,148
Total	<u>\$ 12,110,279</u>	<u>\$ 340,097</u>	<u>\$ 2,523,484</u>	<u>\$ 442,801</u>	<u>\$ 15,416,661</u>

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

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 307,474	\$ 12,951
Reconciliation to net cash provided by operating activities:		
Net realized and unrealized gain(loss) on investments	60,434	(34,560)
Loss on disposal of property and equipment	803	1,633
Depreciation	572,865	513,999
Amortization of debt issuance costs	17,438	17,438
Changes in:		
Prepaid expenses	(385,576)	(7,970)
Accounts and contributions receivable	110,376	(79,088)
Other assets	(99,108)	127,949
Accounts payable	109,793	5,272
Accrued expenses	198,275	(240,420)
Deferred revenues	490,523	864,157
Net cash provided by operating activities	<u>1,383,297</u>	<u>1,181,361</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(888,809)	(44,682)
Proceeds from sale of investments	528,000	200,062
Purchases of property and equipment	<u>(356,119)</u>	<u>(231,534)</u>
Net cash used by investing activities	<u>(716,928)</u>	<u>(76,154)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on capital lease obligations	(313,000)	(298,000)
Principal payments on note payable	(45,779)	(11,444)
Receipt (use) of restricted cash	<u>(91,612)</u>	<u>118,106</u>
Net cash used by financing activities	<u>(450,391)</u>	<u>(191,338)</u>
NET INCREASE IN CASH	215,978	913,869
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>3,401,301</u>	<u>2,487,432</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 3,617,279</u>	<u>\$ 3,401,301</u>
NON-CASH ACTIVITY:		
Property and equipment acquired through note payable	<u>\$ 62,988</u>	<u>\$ 74,340</u>
SUPPLEMENTAL ACTIVITY:		
Interest paid	<u>\$ 243,035</u>	<u>\$ 255,420</u>

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

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Broadway Sacramento (BWYSAC) is a California nonprofit corporation. BWYSAC annually produces and presents two seasons of theatrical productions in Sacramento, California. Broadway At Music Circus productions are performed in the Wells Fargo Pavilion and Broadway On Tour productions are presented in the Sacramento Community Center Theater. BWYSAC 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. Effective December 12, 2017, Broadway Sacramento's name was changed from its former name, California Musical Theatre. In 2018, the Music Circus season was rebranded to Broadway At Music Circus and the Broadway Sacramento season was rebranded to Broadway On Tour.

The Broadway Sacramento Foundation (Foundation) was formed in 2001 with the specific purpose to encourage, support, and promote the maintenance, enhancement, and expansion of the Broadway Sacramento in the Sacramento region and beyond. Effective December 12, 2017, Broadway Sacramento Foundation's name was changed from its former name, California Musical Theatre Foundation.

Principles of consolidation – The accompanying financial statements reflect the consolidation of BWYSAC and the Foundation (collectively, the Company). BWYSAC'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 two classes of net assets: without donor restrictions and with donor restrictions. The Company's net assets with donor restrictions 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 deposits held with financial institutions in excess of federal depository insurance limits were \$4,902,164 and \$3,982,784 as of December 31, 2018 and 2017, respectively. 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 Broadway At Music Circus ticket prices which are used to retire the debt obligation to the City of Sacramento. See Note 5 for additional details.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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.

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, 2018 and 2017, the Company had deferred revenue from ticket sales for future performances of \$6,123,083 and \$5,632,560 respectively and prepaid costs of future performances of \$606,248 and \$295,690, 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 net assets with donor restrictions. Net assets with donor restrictions 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. Net assets with donor restrictions whose restrictions are met in the same reporting period are shown as net assets without donor restrictions.

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, 2018 and 2017 totaled \$1,270,598 and \$1,041,120, respectively. Prepaid costs of future performances include prepaid advertising expense totaling \$153,173 and \$177,755 at December 31, 2018 and 2017, respectively.

Income tax status – BWYSAC 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, BWYSAC 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.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, 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.

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 7, 2019, 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 pronouncement – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and available resources, and the type of information provided about expenses and investment return. BWYSAC has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, with the exception of the liquidity disclosure, which has not been applied for the year ended December 31, 2017 as allowed by the transition guidance of this ASU.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Recently Issued Accounting Pronouncement – In May 2014, the FASB issued ASU No. 2014-09, *Revenue with Contract from Customers (Topic 606)*. The new accounting standard develops a common revenue standard that will remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. Application of this statement is effective for the year ending December 31, 2019. The Company is currently evaluating the impact this pronouncement will have on its financial statements.

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

Broadway Sacramento’s financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 3,617,279
Investments	862,705
Accounts receivable	<u>42,150</u>
Total financial assets available within one year	4,522,134
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	<u>(16,500)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 4,505,634</u>

Broadway Sacramento’s working capital and cash flows have seasonal variations during the year attributable to cash receipts of ticket sales and a concentration of contributions received in November – January for the Broadway At Music Circus season and April – June for the Broadway On Tour season. The Company structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. BWYSAC invests a portion of its excess daily requirements in short term treasury bills. The Foundation invests its funds in mutual funds and certificates of deposit. As described in Note 8, BWYSAC also has a revolving loan agreement in the amount of \$300,000, which it could draw upon in the event of an unanticipated liquidity need.

3. 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 2018 or 2017.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Investments consist of the following:

	<u>2018</u>	<u>2017</u>
Mutual funds - equity funds:		
Mid-cap blend	\$ 93,883	\$ 100,429
Large blend	143,692	85,920
World allocation	67,507	73,785
Large value		68,046
Large growth	65,209	67,606
Conservative allocation	35,735	37,705
Moderate allocation	3,771	3,879
Certificates of deposit	49,716	99,960
Treasury bills	378,192	
Investments in theatrical productions	<u>25,000</u>	<u>25,000</u>
Total	<u>\$ 862,654</u>	<u>\$ 562,330</u>

Interest and investment income consist of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 53,888	\$ 36,037
Net realized and unrealized gain (loss) on investments	<u>(80,907)</u>	<u>36,874</u>
Total	<u>\$ (27,019)</u>	<u>\$ 72,911</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Buildings	\$ 15,045,873	\$ 15,053,288
Machinery and equipment	2,062,341	1,696,371
Land	1,130,049	1,130,049
Furniture and fixtures	720,960	708,371
Leasehold improvements	334,903	223,283
Autos and trucks	127,956	127,956
Costumes	73,282	73,282
Construction in progress	<u>4,680</u>	<u>117,440</u>
Total	19,500,044	19,130,040
Less accumulated depreciation	<u>(7,898,296)</u>	<u>(7,373,731)</u>
Total	<u>\$ 11,601,748</u>	<u>\$ 11,756,309</u>

Included in the amounts above are property and equipment under capital lease with a net book value of \$9,084,101 and \$9,449,232 at December 31, 2018 and 2017, respectively (See Note 5).

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

5. H STREET PROJECT

The Company's Broadway At 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.

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.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 are as follows:

Year Ending December 31:

2019	\$ 539,053
2020	540,989
2021	542,570
2022	670,725
2023	671,525
Thereafter	<u>6,049,009</u>
Total	9,013,871
Less amounts representing interest	<u>(1,689,871)</u>
Capital lease obligation	7,324,000
Less current portion	<u>(323,000)</u>
Capital lease obligation, net	<u>\$ 7,001,000</u>

The capital lease obligation and unamortized debt issue costs are as follows:

	<u>2018</u>	<u>2017</u>
Current portion of capital lease obligation	\$ 323,000	\$ 313,000
Less: current portion of unamortized debt issuance costs	<u>(17,438)</u>	<u>(17,438)</u>
Current portion of capital lease obligation, net	<u>305,562</u>	<u>295,562</u>
Noncurrent portion of capital lease obligation	7,001,000	7,324,000
Less: noncurrent portion of unamortized debt issuance costs	<u>(226,691)</u>	<u>(244,129)</u>
Noncurrent portion of capital lease obligation, net	<u>6,774,309</u>	<u>7,079,871</u>
Total capital lease obligation, net of debt issuance costs	<u>\$ 7,079,871</u>	<u>\$ 7,375,433</u>

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.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 \$71,040 and \$96,229 for the years ended December 31, 2018 and 2017, respectively. The Company accounts for the Facility Sublease as an operating lease.

6. NOTE PAYABLE

BWYSAC has an interest free note payable that represents the financed purchase of the Organization's new ticketing system. Quarterly payments are due in installments of \$11,443 through September 2020. Future minimum payments due under this note are as follows, for the year ended December 31:

2019	\$ 45,772
2020	<u>34,333</u>
Total	<u>\$ 80,105</u>

7. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases certain equipment and facilities under long-term operating lease agreements, which expire at various dates through 2024. Rental expense in connection with these operating lease agreements for 2018 and 2017 was \$297,207 and \$294,915, respectively. Future minimum payments for the operating leases are as follows:

Year Ending December 31:

2019	\$ 313,306
2020	320,053
2021	320,846
2022	201,754
2023	183,550
Thereafter	<u>189,056</u>
Total	<u>\$ 1,528,565</u>

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

8. EMPLOYEE BENEFIT PLAN

The Company sponsors the Broadway Sacramento 401(k) Employee Benefit Plan (Plan) for eligible employees. The 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, 2018 and 2017 year-ends were \$52,116 and \$63,029, respectively. The next contribution date will not take place until the Plan year-end of June 30, 2019.

9. 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 expired on April 15, 2018 and was renewed to May 8, 2021. 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, 2018, and 2017, there were no draws taken from this account and no outstanding balance due.

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL DECEMBER 31, 2018

	<u>BWYSAC</u>	<u>Foundation</u>	<u>Consolidated</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,443,608	\$ 173,671	\$ 3,617,279
Restricted cash	800,210		800,210
Prepaid expenses	836,940		836,940
Accounts and contributions receivable	42,150		42,150
Other current assets	<u>199,059</u>		<u>199,059</u>
Total current assets	5,321,967	173,671	5,495,638
NONCURRENT ASSETS:			
Restricted cash	621,924		621,924
Investments	403,192	459,513	862,705
Contributions receivable, net			
Property and equipment, net	11,601,748		11,601,748
Other assets	<u>338,973</u>		<u>338,973</u>
TOTAL ASSETS	<u>\$ 18,287,804</u>	<u>\$ 633,184</u>	<u>\$ 18,920,988</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 317,934		\$ 317,934
Accrued expenses	702,188		702,188
Current portion of capital lease obligation	305,562		305,562
Current portion of note payable	45,772		45,772
Deferred revenues	<u>6,123,083</u>		<u>6,123,083</u>
Total current liabilities	7,494,539		7,494,539
NOTE PAYABLE, Net	34,333		34,333
CAPITAL LEASE OBLIGATION, Net	<u>6,774,309</u>		<u>6,774,309</u>
Total liabilities	<u>14,303,181</u>		<u>14,303,181</u>
NET ASSETS:			
Without donor restrictions	3,949,590	\$ 633,184	4,582,774
With donor restrictions	<u>35,033</u>		<u>35,033</u>
Total net assets	<u>3,984,623</u>	<u>633,184</u>	<u>4,617,807</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,287,804</u>	<u>\$ 633,184</u>	<u>\$ 18,920,988</u>

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL DECEMBER 31, 2017

	<u>BWYSAC</u>	<u>Foundation</u>	<u>Consolidated</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,267,703	\$ 133,598	\$ 3,401,301
Restricted cash	673,762		673,762
Prepaid expenses	451,364		451,364
Accounts and contributions receivable	147,526		147,526
Other current assets	<u>143,609</u>		<u>143,609</u>
Total current assets	4,683,964	<u>133,598</u>	4,817,562
NONCURRENT ASSETS:			
Restricted cash	656,760		656,760
Investments	25,000	537,330	562,330
Contributions receivable, net	5,000		5,000
Property and equipment, net	11,756,309		11,756,309
Other assets	<u>295,315</u>		<u>295,315</u>
TOTAL ASSETS	<u>\$ 17,422,348</u>	<u>\$ 670,928</u>	<u>\$ 18,093,276</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 208,141		\$ 208,141
Accrued expenses	503,913		503,913
Current portion of capital lease obligation	295,562		295,562
Current portion of note payable	39,669		39,669
Deferred revenues	<u>5,632,560</u>		<u>5,632,560</u>
Total current liabilities	6,679,845		6,679,845
NOTE PAYABLE, Net	23,227		23,227
CAPITAL LEASE OBLIGATION, Net	<u>7,079,871</u>		<u>7,079,871</u>
Total liabilities	<u>13,782,943</u>		<u>13,782,943</u>
NET ASSETS:			
Without donor restrictions	3,608,766	\$ 670,928	4,279,694
With donor restrictions	<u>30,639</u>		<u>30,639</u>
Total net assets	<u>3,639,405</u>	<u>670,928</u>	<u>4,310,333</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,422,348</u>	<u>\$ 670,928</u>	<u>\$ 18,093,276</u>

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES - SUPPLEMENTAL YEAR ENDED DECEMBER 31, 2018

NET ASSETS WITHOUT DONOR RESTRICTIONS:	<u>BWYSAC</u>	<u>Foundation</u>	<u>Consolidated</u>
REVENUES:			
Ticket sales	\$ 14,451,099		\$ 14,451,099
Contributions	1,810,865	\$ 741	1,811,606
Facility fees and contributions designated for H Street project	670,639		670,639
Box office handling	511,024		511,024
Concessions	314,786		314,786
Program advertising	104,751		104,751
Costume rentals and other	63,877		63,877
Interest and investment income (loss)	(1,908)	(25,111)	(27,019)
Net assets released from restrictions	15,639		15,639
Total revenues	<u>17,940,772</u>	<u>(24,370)</u>	<u>17,916,402</u>
EXPENSES:			
Theatrical productions	14,078,447		14,078,447
Educational programs	391,941		391,941
Total program expenses	14,470,388		14,470,388
Supporting services:			
General and administrative expenses	2,687,738	13,374	2,701,112
Fundraising	441,822		441,822
Total expenses	<u>17,599,948</u>	<u>13,374</u>	<u>17,613,322</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>340,824</u>	<u>(37,744)</u>	<u>303,080</u>
NET ASSETS WITH DONOR RESTRICTIONS:			
Contributions - time restricted	20,033		20,033
Net assets released from restrictions	(15,639)		(15,639)
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>4,394</u>		<u>4,394</u>
INCREASE (DECREASE) IN NET ASSETS	345,218	(37,744)	307,474
NET ASSETS, Beginning of Year	<u>3,639,405</u>	<u>670,928</u>	<u>4,310,333</u>
NET ASSETS, End of Year	<u>\$ 3,984,623</u>	<u>\$ 633,184</u>	<u>\$ 4,617,807</u>

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES - SUPPLEMENTAL YEAR ENDED DECEMBER 31, 2017

NET ASSETS WITHOUT DONOR RESTRICTIONS:	<u>BWYSAC</u>	<u>Foundation</u>	<u>Consolidated</u>
REVENUES:			
Ticket sales	\$ 12,113,648		\$ 12,113,648
Contributions	1,828,208	\$ 1,444	1,829,652
Facility fees and contributions designated for H Street project	686,139		686,139
Box office handling	285,439		285,439
Concessions	285,765		285,765
Program advertising	86,089		86,089
Costume rentals and other	64,320	10	64,330
Interest and investment income	7,696	65,215	72,911
Net assets released from restrictions	<u>33,000</u>		<u>33,000</u>
Total revenues	<u>15,390,304</u>	<u>66,669</u>	<u>15,456,973</u>
EXPENSES:			
Theatrical productions	12,110,279		12,110,279
Educational programs	<u>340,097</u>		<u>340,097</u>
Total program expenses	12,450,376		12,450,376
Supporting services:			
General and administrative expenses	2,509,723	13,761	2,523,484
Fundraising	<u>441,896</u>	<u>905</u>	<u>442,801</u>
Total expenses	<u>15,401,995</u>	<u>14,666</u>	<u>15,416,661</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(11,691)</u>	<u>52,003</u>	<u>40,312</u>
NET ASSETS WITH DONOR RESTRICTIONS:			
Contributions - time restricted	5,639		5,639
Net assets released from restrictions	<u>(33,000)</u>		<u>(33,000)</u>
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(27,361)</u>		<u>(27,361)</u>
INCREASE (DECREASE) IN NET ASSETS	(39,052)	52,003	12,951
NET ASSETS, Beginning of Year	<u>3,678,457</u>	<u>618,925</u>	<u>4,297,382</u>
NET ASSETS, End of Year	<u>\$ 3,639,405</u>	<u>\$ 670,928</u>	<u>\$ 4,310,333</u>