

**BROADWAY SACRAMENTO
AND AFFILIATE**

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

**YEARS ENDED
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018, 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, 2019 and 2018, 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 19 through 22 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 CPAs
GILBERT CPAS
Sacramento, California

June 17, 2020

BROADWAY SACRAMENTO AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,496,510	\$ 3,617,279
Restricted cash	817,449	800,210
Prepaid expenses	599,118	836,940
Accounts and contributions receivable, net	61,610	80,163
Other current assets	<u>59,238</u>	<u>161,046</u>
Total current assets	5,033,925	5,495,638
NONCURRENT ASSETS:		
Restricted cash	664,866	621,924
Investments	665,903	862,705
Property and equipment, net	11,112,905	11,601,748
Other assets	<u>356,122</u>	<u>338,973</u>
TOTAL ASSETS	<u>\$ 17,833,721</u>	<u>\$ 18,920,988</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 155,908	\$ 317,934
Accrued expenses	535,315	702,188
Current portion of capital lease obligation	320,562	305,562
Current portion of note payable	34,329	45,772
Deferred revenues	<u>5,924,768</u>	<u>6,123,083</u>
Total current liabilities	6,970,882	7,494,539
NOTE PAYABLE, Net		34,333
CAPITAL LEASE OBLIGATION, Net	<u>6,453,746</u>	<u>6,774,309</u>
Total liabilities	<u>13,424,628</u>	<u>14,303,181</u>
NET ASSETS:		
Without donor restrictions	4,372,654	4,582,774
With donor restrictions	<u>36,439</u>	<u>35,033</u>
Total net assets	<u>4,409,093</u>	<u>4,617,807</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,833,721</u>	<u>\$ 18,920,988</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Ticket sales	\$ 13,299,023	\$ 14,451,099
Contributions	1,600,183	1,695,237
Box office handling	805,329	511,024
Facility fees and other revenues designated for H Street project	551,192	670,639
Concessions	306,429	314,786
Program advertising	225,662	216,995
Interest and investment income (loss)	150,799	(27,019)
Costume rentals and other	158,521	68,002
Net assets released from restrictions	<u>6,500</u>	<u>15,639</u>
Total revenues	<u>17,103,638</u>	<u>17,916,402</u>
EXPENSES:		
Theatrical productions	13,706,495	14,078,447
Educational programs	<u>410,426</u>	<u>391,941</u>
Total program expenses	14,116,921	14,470,388
Supporting services:		
General and administrative expenses	2,724,502	2,701,112
Fundraising	<u>472,335</u>	<u>441,822</u>
Total expenses	<u>17,313,758</u>	<u>17,613,322</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(210,120)</u>	<u>303,080</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions - time restricted	7,906	20,033
Net assets released from restrictions	<u>(6,500)</u>	<u>(15,639)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>1,406</u>	<u>4,394</u>
INCREASE (DECREASE) IN NET ASSETS	(208,714)	307,474
NET ASSETS, Beginning of Year	<u>4,617,807</u>	<u>4,310,333</u>
NET ASSETS, End of Year	<u>\$ 4,409,093</u>	<u>\$ 4,617,807</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, 2019

	<u>Theatrical Productions</u>	<u>Educational Programs</u>	<u>Management and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 3,073,613	\$ 260,437	\$ 1,446,364	\$ 156,709	\$ 4,937,123
Producer/Author share, guarantee	4,607,649				4,607,649
Advertising/Marketing	1,609,443	5,890	69,563	12,260	1,697,156
Payroll taxes	479,597	38,738	125,302	14,932	658,569
Depreciation	546,054		56,638		602,692
Rent	372,775	22,375	124,210		519,360
Travel, housing and transportation	452,935	538	11,072		464,545
Costume, scenic, prop and other show related	433,856	1,690			435,546
Health benefits	264,129	7,606	143,831	7,847	423,413
Bank fees	327,673	816	13,237	14,345	356,071
Pensions/Annuities	267,445	1,671	33,192		302,308
Professional services	79,710	25,870	139,306		244,886
Ticketing system/Ticket fees	232,164				232,164
Interest expense	17,438		212,975		230,413
Occupancy	208,108		2,313		210,421
Event	62,040			180,188	242,228
Telecommunications	31,697		121,211		152,908
Rental expenses	115,703	574	27,445		143,722
Insurance	78,046		63,913		141,959
Supplies	116,714	753	14,512		131,979
Repairs and maintenance	84,114		2,723		86,837
Parking	54,512	758	27,221		82,491
Postage/Shipping	63,646		6,599		70,245
Other payroll related	48,465		12,816		61,281
Equipment and software	13,129		13,802	1,206	28,137
Other expense	65,840	42,710	56,257	84,848	249,655
Total	<u>\$ 13,706,495</u>	<u>\$ 410,426</u>	<u>\$ 2,724,502</u>	<u>\$ 472,335</u>	<u>\$ 17,313,758</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>
Personnel	\$ 2,848,315	\$ 269,530	\$ 1,400,087	\$ 132,891	\$ 4,650,823
Producer/Author share, guarantee	5,787,511				5,787,511
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
Depreciation	528,220		44,645		572,865
Rent	352,156		115,963		468,119
Travel, housing and transportation	351,798	1,638	17,754		371,190
Costume, scenic, prop and other show related	580,469	1,422			581,891
Health benefits	248,928	11,725	132,168	5,707	398,528
Bank fees	357,244	552	11,333	18,949	388,078
Pensions/Annuities	254,801	1,966	37,506	4,223	298,496
Professional services	64,117	28,060	129,943	5,933	228,053
Ticketing system/Ticket fees	238,638				238,638
Interest expense	17,438		225,597		243,035
Occupancy	201,416		2,309		203,725
Event				185,520	185,520
Telecommunications	31,045		109,220		140,265
Rental expenses	104,486	10,147	27,386		142,019
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 and software	10,137		15,748	8,061	33,946
Other expense	53,804	23,039	66,078	45,756	188,677
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 STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (208,714)	\$ 307,474
Reconciliation to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(64,893)	60,434
Loss on disposal of property and equipment		803
Depreciation	602,692	572,865
Amortization of debt issuance costs	17,437	17,438
Changes in:		
Prepaid expenses	237,822	(385,576)
Accounts and contributions receivable	18,553	100,514
Other assets	84,659	(89,246)
Accounts payable	(162,026)	109,793
Accrued expenses	(166,873)	198,275
Deferred revenues	(198,315)	490,523
Net cash provided by operating activities	<u>160,342</u>	<u>1,383,297</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(620,430)	(888,809)
Proceeds from sale of investments	882,125	528,000
Purchases of property and equipment	(113,849)	(356,119)
Net cash provided (used) by investing activities	<u>147,846</u>	<u>(716,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on capital lease obligations	(323,000)	(313,000)
Principal payments on note payable	(45,776)	(45,779)
Net cash used by financing activities	<u>(368,776)</u>	<u>(358,779)</u>
NET INCREASE (DECREASE) IN CASH	(60,588)	307,590
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>5,039,413</u>	<u>4,731,823</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 4,978,825</u>	<u>\$ 5,039,413</u>
Cash	\$ 3,496,510	\$ 3,617,279
Restricted cash	<u>1,482,315</u>	<u>1,422,134</u>
Total	<u>\$ 4,978,825</u>	<u>\$ 5,039,413</u>
NON-CASH ACTIVITY:		
Property and equipment acquired through note payable	<u>\$ _____</u>	<u>\$ 62,988</u>
SUPPLEMENTAL ACTIVITY:		
Interest paid	<u>\$ 226,105</u>	<u>\$ 243,035</u>

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

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 or Memorial Auditorium (while the Community Center is undergoing renovations.). 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.

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

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 net assets restricted by donors in perpetuity.

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 \$1,561,768 and \$4,902,164 as of December 31, 2019 and 2018, 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.

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.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at December 31, 2019 and 2018 was \$24,549 and \$25,343, respectively.

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.

Revenue recognition – Ticket sales, box office handling fees, concessions, facility fees and other revenues designated for the H Street project, program advertising, and costume rentals and other income are considered exchange transactions. Funds received in advance of the service date are recorded as deferred revenue. Refer to Note 8 for accounting policies and additional details regarding revenue from contracts with customers.

Contributions 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. The Company reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. As such, donor-restricted contributions that are initially conditional, and for which the donor-imposed conditions and restrictions are met in the same year, are reported as revenue without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. 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, 2019 and 2018 totaled \$1,646,173 and \$1,270,598, respectively. Prepaid costs of future performances include prepaid advertising expense totaling \$218,014 and \$153,173 at December 31, 2019 and 2018, 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, 2019 AND 2018

Functional allocation of expenses – The Company's operational expenses are summarized on a functional basis in the statements of activities and functional expenses. For the years ended December 31, 2019 and 2018, 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 June 17, 2020, 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. Refer to Note 11.

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 May 2014, the Financial Accounting Standards Board (FASB) issued Topic 606, *Revenue from Contracts with Customers*. The new accounting standard develops a common standard that will remove inconsistencies in revenue requirements, improve comparability of revenue recognition practices, provide more useful information to users of financial statements and simplify the preparation of financial statements. The Company has implemented Topic 606 effective January 1, 2019 for all contracts with no effect on beginning net assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarifies and improves the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The Company has implemented this accounting standard in the accompanying financial statements effective January 1, 2019 under the modified prospective basis. Accordingly, there is no effect on beginning net assets in connection with the implementation of ASU 2018-08.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), *Restricted Cash*. This update removes inconsistencies in classification of transfers and activity between cash and restricted cash and includes changes in restricted cash when reconciling the statement of cash flows. Management has adjusted the presentation of this statement accordingly. The ASU has been applied retrospectively to all periods presented.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending December 31, 2022. The Company is currently evaluating the impact this pronouncement will have on the financial statements.

Reclassification – Certain 2018 amounts have been reclassified to conform with 2019 financial statement presentation.

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:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,496,510	\$ 3,617,279
Investments	665,903	862,705
Accounts receivable, net	<u>61,610</u>	<u>80,163</u>
Total financial assets available within one year	4,224,023	4,560,147
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose or time restrictions	<u>(11,775)</u>	<u>(16,500)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 4,212,248</u>	<u>\$ 4,543,647</u>

BWYSAC'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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

other obligations come due. BWYSAC invests a portion of its excess daily requirements in mutual funds. The Foundation invests its funds in mutual funds and certificates of deposit. As described in Note 10, 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 2019 and 2018.

Investments consist of the following:

	<u>2019</u>	<u>2018</u>
Mutual funds - equity funds:		
Large blend	\$ 268,831	\$ 143,692
Large value	39,148	
Small blend	39,084	
Mid-cap blend	38,467	93,883
Large growth	38,432	65,209
World allocation		67,507
Conservative allocation		35,735
Moderate allocation		3,771
Mutual funds – fixed income:		
Intermediate	150,731	
Certificates of deposit	91,210	49,716
Treasury bills		378,192
Investments in theatrical productions		25,000
Total	<u>\$ 665,903</u>	<u>\$ 862,654</u>

Interest and investment income consist of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 85,906	\$ 53,888
Net realized and unrealized gain (loss) on investments	64,893	(80,907)
Total	<u>\$ 150,799</u>	<u>\$ (27,019)</u>

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 15,062,078	\$ 15,045,874
Machinery and equipment	2,115,312	2,062,341
Land	1,130,049	1,130,049
Furniture and fixtures	720,960	720,960
Leasehold improvements	353,264	334,903
Autos and trucks	127,956	127,956
Costumes	73,282	73,282
Construction in progress		4,680
Total	<u>19,582,901</u>	<u>19,500,044</u>
Less accumulated depreciation	<u>(8,469,996)</u>	<u>(7,898,296)</u>
Total	<u>\$ 11,112,905</u>	<u>\$ 11,601,748</u>

Included in the amounts above are property and equipment under capital lease with a net book value of \$8,718,970 and \$9,084,101 at December 31, 2019 and 2018, respectively (See Note 5).

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.

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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.

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, 2019 are as follows:

<u>Year Ending December 31:</u>	
2020	\$ 540,989
2021	542,570
2022	670,725
2023	671,525
2024	671,970
Thereafter	<u>5,377,039</u>
Total	8,474,818
Less amounts representing interest	<u>(1,473,818)</u>
Capital lease obligation	7,001,000
Less current portion	<u>(338,000)</u>
Capital lease obligation, net	<u>\$ 6,663,000</u>

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

	<u>2019</u>	<u>2018</u>
Current portion of capital lease obligation	\$ 338,000	\$ 323,000
Less: current portion of unamortized debt issuance costs	<u>(17,438)</u>	<u>(17,438)</u>
Current portion of capital lease obligation, net	<u>320,562</u>	<u>305,562</u>
Noncurrent portion of capital lease obligation	6,663,000	7,001,000
Less: noncurrent portion of unamortized debt issuance costs	<u>(209,254)</u>	<u>(226,691)</u>
Noncurrent portion of capital lease obligation, net	<u>6,453,746</u>	<u>6,774,309</u>
Total capital lease obligation, net of debt issuance costs	<u>\$ 6,774,308</u>	<u>\$ 7,079,871</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.

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 \$75,691 and \$71,040 for the years ended December 31, 2019 and 2018, 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. Payments due in 2020 total \$34,329.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 2025. Rental expense in connection with these operating lease agreements for 2019 and 2018 was \$307,050 and \$297,207, respectively. Future minimum payments for the operating leases are as follows:

Year Ending December 31:

2020	\$ 324,511
2021	329,877
2022	210,785
2023	192,581
2024	197,713
Thereafter	<u>3,393</u>
Total	<u>\$ 1,258,860</u>

8. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company's revenue from contracts with customers consists of ticket sales, box office handling fees, facility fees and other revenues designated for the H Street project, concessions, program advertising, and costume rentals and other, because the Company provides services of direct benefit to the resource provider.

Revenues from ticket sales and facility fees are recognized at the time the event occurs. Concessions revenue and box office handling fees are recognized at the point of sale. Facility fees and other revenue designated for the H Street project on the statements of activities include \$125,000 in revenue from a contract for naming rights for Wells Fargo Pavilion. Advertising fees and naming rights are recognized ratably over the performance period. Costume rentals are recognized when the rental occurs.

Funds received in advance of being earned are recorded as deferred revenue, which represents a contract liability.

A contract asset is recorded when the Company satisfies a performance obligation of a contract but is not yet entitled to payment. When the Company becomes entitled to payment, the contract asset is classified as a receivable, whether invoiced or not.

The performance obligations which are satisfied over time, such as advertising fees and naming rights, are recognized evenly over the performance period. Other performance obligations are satisfied at a point in time, including admission to an event or when a rental occurs.

For the year ended December 31, 2019, revenue recognized for goods and services transferred at a point in time and for services transferred over time totaled \$14,995,494 and \$350,662, respectively.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

The balances of receivables and contract liabilities from contracts with customers are as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Receivables	\$ 53,836	\$ 65,680
Contract liabilities:		
Deferred revenue	\$ 5,919,768	\$ 6,111,083

Deferred revenue is primarily ticket sales and is expected to be recognized in the next fiscal period.

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. The Company had prepaid costs of future performances for the years 2019 and 2018 of \$371,996 and \$606,248, respectively.

9. 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, 2019 and 2018 year-ends were \$41,595 and \$52,116, respectively. The next contribution date will not take place until the Plan year-end of June 30, 2020.

10. 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 expires on 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, 2019 and 2018, there were no draws taken from this account and no outstanding balance due.

BROADWAY SACRAMENTO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

11. SUBSEQUENT EVENT

In March 2020, the coronavirus pandemic caused business disruption through the mandated cancellation of all large public gatherings. As a result, BWYSAC had to cancel the remainder of the 2019/20 Broadway On Tour season, postpone the 2020 Gala, postpone the 2020 Broadway At Music Circus season, and delay the start of the 2020/21 Broadway On Tour season until late December 2020. The resumption of performances at the end of the year will be subject to local and state government approval. Given the programming hiatus, BWYSAC laid off eight employees and furloughed five others. Additionally, BWYSAC launched an emergency donor campaign, reduced all non-essential operating expenses, and encouraged Music Circus patrons to “roll over” their prepaid 2020 subscriptions to the 2021 season. BWYSAC also applied for and received a \$498,300 loan from the Cares Act Paycheck Protection Program (PPP). At this time, it is unknown what portion of those PPP funds will be forgivable. The loan agreement dictates that any funds deemed unforgivable will carry a 1% interest rate over a five-year term, with monthly payments beginning in November 2020.

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL DECEMBER 31, 2019

	<u>BWYSAC</u>	<u>Foundation</u>	<u>Consolidated</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,443,395	\$ 53,115	\$ 3,496,510
Restricted cash	817,449		817,449
Prepaid expenses	599,118		599,118
Accounts and contributions receivable, net	61,610		61,610
Other current assets	<u>59,238</u>		<u>59,238</u>
Total current assets	4,980,810	<u>53,115</u>	5,033,925
NONCURRENT ASSETS:			
Restricted cash	664,866		664,866
Investments		665,903	665,903
Contributions receivable, net			
Property and equipment, net	11,112,905		11,112,905
Other assets	<u>336,458</u>	<u>19,664</u>	<u>356,122</u>
TOTAL ASSETS	<u>\$ 17,095,039</u>	<u>\$ 738,682</u>	<u>\$ 17,833,721</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 155,908		\$ 155,908
Accrued expenses	535,315		535,315
Current portion of capital lease obligation	320,562		320,562
Current portion of note payable	34,329		34,329
Deferred revenues	<u>5,924,768</u>		<u>5,924,768</u>
Total current liabilities	6,970,882		6,970,882
NOTE PAYABLE, Net			
CAPITAL LEASE OBLIGATION, Net	<u>6,453,746</u>		<u>6,453,746</u>
Total liabilities	<u>13,424,628</u>		<u>13,424,628</u>
NET ASSETS:			
Without donor restrictions	3,653,636	\$ 719,018	4,372,654
With donor restrictions	<u>16,775</u>	<u>19,664</u>	<u>36,439</u>
Total net assets	<u>3,670,411</u>	<u>738,682</u>	<u>4,409,093</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,095,039</u>	<u>\$ 738,682</u>	<u>\$ 17,833,721</u>

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, net	80,163		80,163
Other current assets	<u>161,046</u>		<u>161,046</u>
Total current assets	5,321,967	<u>173,671</u>	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>320,440</u>	<u>18,533</u>	<u>338,973</u>
TOTAL ASSETS	<u>\$ 18,269,271</u>	<u>\$ 651,717</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>16,500</u>	<u>18,533</u>	<u>35,033</u>
Total net assets	<u>3,966,090</u>	<u>651,717</u>	<u>4,617,807</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,269,271</u>	<u>\$ 651,717</u>	<u>\$ 18,920,988</u>

BROADWAY SACRAMENTO AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES - SUPPLEMENTAL YEAR ENDED DECEMBER 31, 2019

NET ASSETS WITHOUT DONOR RESTRICTIONS:	<u>BWYSAC</u>	<u>Foundation</u>	<u>Consolidated</u>
REVENUES:			
Ticket sales	\$ 13,299,023		\$ 13,299,023
Contributions	1,595,400	\$ 4,783	1,600,183
Facility fees and other revenues designated for H Street project	551,192		551,192
Box office handling	805,329		805,329
Concessions	306,429		306,429
Program advertising	225,662		225,662
Costume rentals and other	158,501	20	158,521
Interest and investment income	48,347	102,452	150,799
Net assets released from restrictions	6,500		6,500
Total revenues	<u>16,996,383</u>	<u>107,255</u>	<u>17,103,638</u>
EXPENSES:			
Theatrical productions	13,706,495		13,706,495
Educational programs	410,426		410,426
Total program expenses	14,116,921		14,116,921
Supporting services:			
General and administrative expenses	2,703,081	21,421	2,724,502
Fundraising	472,335		472,335
Total expenses	<u>17,292,337</u>	<u>21,421</u>	<u>17,313,758</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(295,954)</u>	<u>85,834</u>	<u>(210,120)</u>
NET ASSETS WITH DONOR RESTRICTIONS:			
Contributions - time restricted	6,775	1,131	7,906
Net assets released from restrictions	<u>(6,500)</u>		<u>(6,500)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>275</u>	<u>1,131</u>	<u>1,406</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(295,679)</u>	<u>86,965</u>	<u>(208,714)</u>
NET ASSETS, Beginning of Year	<u>3,966,090</u>	<u>651,717</u>	<u>4,617,807</u>
NET ASSETS, End of Year	<u>\$ 3,670,411</u>	<u>\$ 738,682</u>	<u>\$ 4,409,093</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	1,694,496	\$ 741	1,695,237
Facility fees and other revenues designated for H Street project	670,639		670,639
Box office handling	511,024		511,024
Concessions	314,786		314,786
Program advertising	216,995		216,995
Costume rentals and other	68,002		68,002
Interest and investment income	(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	1,500	18,533	20,033
Net assets released from restrictions	<u>(15,639)</u>		<u>(15,639)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(14,139)</u>	<u>18,533</u>	<u>4,394</u>
INCREASE (DECREASE) IN NET ASSETS	326,685	(19,211)	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>\$ 3,966,090</u>	<u>\$ 651,717</u>	<u>\$ 4,617,807</u>