

TRINITY REPERTORY COMPANY
Financial Statements
June 30, 2020 and 2019
With Independent Auditor's Report

Trinity Repertory Company
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June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Trinity Repertory Company:

Report on Financial Statements

We have audited the accompanying financial statements of Trinity Repertory Company (a not-for-profit corporation) (the "Organization"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related 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 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 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 from 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 Organization'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 Organization'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 financial statements referred to above present fairly, in all material respects, the financial position of Trinity Repertory Company as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, in 2019, the Organization adopted new accounting guidance in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) and FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our conclusion is not modified with respect to these matters.

As discussed in Note 17 to the financial statements, management is currently evaluating the introduction of the SARS-CoV-2 virus to the United States and its impact on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial condition and results of operations, the specific impact is not readily determinable as of the date of these financial statements. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Withum Smith & Brown, PC".

October 19, 2020

Trinity Repertory Company
Statements of Financial Position
June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 5,081,518	\$ 342,459	\$ 5,423,977	\$ 2,639,932	\$ 227,599	\$ 2,867,531
Investments	171,933	-	171,933	167,814	-	167,814
Unconditional promises to give	40,600	230,603	271,203	485,795	416,258	902,053
Prepaid expenses and other current assets	59,516	-	59,516	119,454	-	119,454
Total current assets	5,353,567	573,062	5,926,629	3,412,995	643,857	4,056,852
Unconditional promises to give	-	273,400	273,400	-	247,573	247,573
Property and equipment, at cost, net of accumulated depreciation and amortization	5,592,496	-	5,592,496	5,618,390	-	5,618,390
Assets held at The Rhode Island Community Foundation	97,875	3,124,045	3,221,920	97,875	3,062,020	3,159,895
Deposits	7,700	-	7,700	26,500	-	26,500
Total assets	\$ 11,051,638	\$ 3,970,507	\$ 15,022,145	\$ 9,155,760	\$ 3,953,450	\$ 13,109,210
Liabilities and Net Assets						
Liabilities						
Current Liabilities						
Loan payable	\$ 87,504	\$ -	\$ 87,504	\$ 87,504	\$ -	\$ 87,504
Mortgage payable	6,940	-	6,940	-	-	-
Accounts payable and accrued expenses	151,076	-	151,076	87,882	-	87,882
PPP loan payable	1,230,200	-	1,230,200	-	-	-
Deferred revenue	1,974,577	-	1,974,577	2,205,646	-	2,205,646
Current portion of capital lease obligation	152,938	-	152,938	149,940	-	149,940
Total current liabilities	3,603,235	-	3,603,235	2,530,972	-	2,530,972
Deferred rent credit	18,447	-	18,447	17,868	-	17,868
Capital lease obligation, net of current portion	1,363,384	-	1,363,384	1,400,071	-	1,400,071
Loan payable, net of current portion	1,056,232	-	1,056,232	1,143,736	-	1,143,736
Mortgage payable, net of current portion	159,547	-	159,547	-	-	-
Total liabilities	6,200,845	-	6,200,845	5,092,647	-	5,092,647
Commitments and contingencies						
Net assets						
Without donor restrictions						
Property and equipment, net of capital lease obligation and mortgage	3,909,687	-	3,909,687	4,068,379	-	4,068,379
Board-designated	260,375	-	260,375	260,375	-	260,375
Undesignated (deficit)	680,731	-	680,731	(265,641)	-	(265,641)
Total without donor restrictions	4,850,793	-	4,850,793	4,063,113	-	4,063,113
With donor restrictions	-	3,970,507	3,970,507	-	3,953,450	3,953,450
Total net assets	4,850,793	3,970,507	8,821,300	4,063,113	3,953,450	8,016,563
Total liabilities and net assets	\$ 11,051,638	\$ 3,970,507	\$ 15,022,145	\$ 9,155,760	\$ 3,953,450	\$ 13,109,210

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

Trinity Repertory Company
Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities						
Public support and other revenue						
Public support						
Government	\$ 149,322	\$ 4,743	\$ 154,065	\$ 163,378	\$ -	\$ 163,378
Foundations	303,098	117,818	420,916	244,338	315,000	559,338
Corporations	182,380	-	182,380	126,776	35,000	161,776
Individuals and family foundations	1,176,851	34,014	1,210,865	964,084	133,771	1,097,855
Fundraising benefits	362,296	-	362,296	515,936	-	515,936
Less: direct costs of fundraising benefits	(205,147)	-	(205,147)	(271,463)	-	(271,463)
Donated services and materials	680,597	-	680,597	720,576	-	720,576
Spending policy distribution	134,493	-	134,493	122,917	-	122,917
Net assets released from restrictions						
Individuals and family foundations	166,850	(166,850)	-	156,000	(156,000)	-
Foundations	124,916	(124,916)	-	183,614	(183,614)	-
Corporations	35,000	(35,000)	-	50,000	(50,000)	-
Government	-	-	-	30,000	(30,000)	-
Total public support	3,110,656	(170,191)	2,940,465	3,006,156	64,157	3,070,313
Ticket sales	3,250,679	-	3,250,679	3,355,660	-	3,355,660
MFA Program income	2,848,366	-	2,848,366	2,810,527	-	2,810,527
Service charge and facility income	391,730	-	391,730	461,827	-	461,827
Education and engagement income	212,752	-	212,752	274,495	-	274,495
Concession income, net of cost of goods sold	157,141	-	157,141	167,472	-	167,472
Program advertising	150,114	-	150,114	137,197	-	137,197
Investment income	47,021	-	47,021	29,340	-	29,340
Rental income	9,307	-	9,307	101,303	-	101,303
Miscellaneous income	5,804	-	5,804	57,702	-	57,702
Total public support and other revenue	10,183,570	(170,191)	10,013,379	10,401,679	64,157	10,465,836
Expenses						
Program services	8,519,073	-	8,519,073	8,882,656	--	8,882,656
Supporting services						
Management and general	638,819	-	638,819	621,195	-	621,195
Fundraising	584,165	-	584,165	693,915	-	693,915
Total supporting services	1,222,984	-	1,222,984	1,315,110	-	1,315,110
Total expenses	9,742,057	-	9,742,057	10,197,766	-	10,197,766
Change in net assets before non-operating activities (carried forward)	441,513 *	(170,191)	271,322	203,913 *	64,157	268,070

* Includes depreciation and amortization expense of \$559,784 (2020) and \$554,378 (2019)

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

Trinity Repertory Company
Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets before non-operating activities (brought forward)	\$ 441,513	\$ (170,191)	\$ 271,322	\$ 203,913	\$ 64,157	\$ 268,070
Non-operating activities						
Individuals and family foundations	-	99,909	99,909	-	264,580	264,580
Investment income (loss)	-	(35,706)	(35,706)	-	144,196	144,196
Spending policy distribution	-	(134,493)	(134,493)	-	(122,917)	(122,917)
Capital contributions						
Government	153,705	-	153,705	262,254	-	262,254
Individuals and family foundations	-	450,000	450,000	-	-	-
Net assets released from restrictions						
Foundations	192,462	(192,462)	-	47,075	(47,075)	-
Total non-operating activities	346,167	187,248	533,415	309,329	238,784	548,113
Change in net assets	787,680	17,057	804,737	513,242	302,941	816,183
Net assets						
Beginning of year	4,063,113	3,953,450	8,016,563	3,549,871	3,650,509	7,200,380
End of year	\$ 4,850,793	\$ 3,970,507	\$ 8,821,300	\$ 4,063,113	\$ 3,953,450	\$ 8,016,563

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

Trinity Repertory Company
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Supporting Services			Total Expenses
		Management and General	Fundraising	Total	
Salaries, payroll taxes and benefits	\$ 4,841,049	\$ 401,136	\$ 387,526	\$ 788,662	\$ 5,629,711
Production costs	465,046	-	-	-	465,046
Cancelled performance costs	412,706	-	-	-	412,706
Rent, utilities and maintenance	516,604	42,807	41,354	84,161	600,765
Donated services and materials	674,052	3,329	3,216	6,545	680,597
Advertising and marketing	256,683	-	-	-	256,683
Office expenses	426,931	35,376	34,176	69,552	496,483
Interest expense	116,251	54,197	-	54,197	170,448
Fundraising benefit expense	-	-	206,868	206,868	206,868
Consulting fees and development	68,795	7,583	49,934	57,517	126,312
Miscellaneous	46,081	3,844	3,714	7,558	53,639
Insurance	56,018	4,642	4,484	9,126	65,144
Concession cost of goods sold	68,749	-	-	-	68,749
Artistic expenses	58,565	-	-	-	58,565
Dues and memberships	14,348	13,363	15,600	28,963	43,311
Travel and entertainment	84,580	1,919	757	2,676	87,256
Professional fees	-	30,736	-	30,736	30,736
Bad debt expense	-	-	3,150	3,150	3,150
Depreciation and amortization	481,364	39,887	38,533	78,420	559,784
Total expenses	8,587,822	638,819	789,312	1,428,131	10,015,953
Less: Expenses included with revenues on the statement of activities					
Concession cost of goods sold	(68,749)	-	-	-	(68,749)
Direct costs of special events	-	-	(205,147)	(205,147)	(205,147)
	<u>\$ 8,519,073</u>	<u>\$ 638,819</u>	<u>\$ 584,165</u>	<u>\$ 1,222,984</u>	<u>\$ 9,742,057</u>

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

Trinity Repertory Company
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Supporting Services			Total Expenses
		Management and General	Fundraising	Total	
Salaries, payroll taxes and benefits	\$ 5,227,629	\$ 371,357	\$ 403,492	\$ 774,849	\$ 6,002,478
Production costs	795,073	-	-	-	795,073
Rent, utilities and maintenance	597,694	42,452	46,125	88,577	686,271
Donated services and materials	712,616	1,947	6,013	7,960	720,576
Advertising and marketing	332,190	-	-	-	332,190
Office expenses	358,496	25,462	27,666	53,128	411,624
Interest expense	118,396	54,832	-	54,832	173,228
Fundraising benefit expense	-	-	278,983	278,983	278,983
Consulting fees and development	2,836	37,984	75,345	113,329	116,165
Miscellaneous	36,997	2,628	2,856	5,484	42,481
Insurance	56,154	3,988	4,333	8,321	64,475
Concession cost of goods sold	74,934	-	-	-	74,934
Artistic expenses	54,805	-	-	-	54,805
Dues and memberships	14,437	13,801	15,600	29,401	43,838
Travel and entertainment	92,508	1,983	65,705	67,688	160,196
Professional fees	-	30,468	-	30,468	30,468
Bad debt expense	-	-	2,000	2,000	2,000
Depreciation and amortization	482,825	34,293	37,260	71,553	554,378
Total expenses	8,957,590	621,195	965,378	1,586,573	10,544,163
Less: Expenses included with revenues on the statement of activities					
Concession cost of goods sold	(74,934)	-	-	-	(74,934)
Direct costs of special events	-	-	(271,463)	(271,463)	(271,463)
	<u>\$ 8,882,656</u>	<u>\$ 621,195</u>	<u>\$ 693,915</u>	<u>\$ 1,315,110</u>	<u>\$ 10,197,766</u>

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

Trinity Repertory Company
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating and non-operating activities		
Change in net assets	\$ 804,737	\$ 816,183
Adjustments to reconcile increase in net assets to net cash provided by operating and non-operating activities		
Depreciation and amortization	559,784	554,378
Donated securities	(224,316)	(314,799)
Change in present value and reserve for uncollectible pledges	220,673	(22,085)
Realized (gain) loss on sale of donated securities	(152)	3,686
Unrealized gain on investments	(4,119)	(5,264)
Credit for real estate taxes upon purchase of intern housing	(2,441)	-
Bad debt expense	3,150	2,000
Fund activities		
Unrealized (gain) loss on investments	117,335	(9,334)
Realized gain on sale of investments	(69,808)	(136,367)
Reinvested interest and dividends	(40,972)	(35,017)
Investment management fees and expenses	29,154	36,520
Change in		
Unconditional promises to give	381,200	247,912
Prepaid expenses and other current assets	59,938	77,147
Deposits	18,800	(19,050)
Change in		
Accounts payable and accrued expenses	63,194	(124,181)
Deferred revenue	(231,069)	887,130
Deferred rent credit	579	5,579
Net cash provided by operating and non-operating activities	<u>1,685,667</u>	<u>1,964,438</u>
Investing activities		
Proceeds from sale of donated securities	224,468	311,113
Fund activities		
Transfer of endowment contributions	(232,227)	(307,609)
Receipt of spending policy distribution	134,493	122,917
Capital expenditures	(146,807)	(77,839)
Payments towards construction in progress	(171,042)	(188,684)
Payment for purchase of investments	-	(162,550)
Net cash used in investing activities	<u>(191,115)</u>	<u>(302,652)</u>
Financing activities		
PPP loan borrowed	1,230,200	-
Principal payments towards loans payable	(87,504)	(387,504)
Principal payments towards mortgage	(47,113)	-
Principal payments towards capital lease obligation	(33,689)	(28,604)
Net cash provided by (used in) financing activities	<u>1,061,894</u>	<u>(416,108)</u>
Net change in cash and cash equivalents	2,556,446	1,245,678
Cash and cash equivalents		
Beginning of year	<u>2,867,531</u>	<u>1,621,853</u>
End of year	<u>\$ 5,423,977</u>	<u>\$ 2,867,531</u>
Supplemental disclosure of cash flow information		
Interest paid (loans and mortgage)	<u>\$ 54,197</u>	<u>\$ 54,646</u>
Interest paid (capital lease)	<u>\$ 116,251</u>	<u>\$ 118,396</u>
Non-Cash Activities		
Mortgage received for the purchase of intern housing	<u>\$ 213,600</u>	<u>\$ -</u>
Credit for real estate taxes upon purchase of intern housing	<u>\$ 2,441</u>	<u>\$ -</u>

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

Trinity Repertory Company
Notes to Financial Statements
June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Trinity Repertory Company (the "Organization") is a not-for-profit corporation located in Providence, Rhode Island. Founded in 1963, the Organization was established to promote the appreciation of theater through theatrical productions, provide and support facilities for education and instruction in the art of theater, and to offer seminars, workshops and other programs relating to the art of theater.

Due to the impacts of the SARS-CoV-2 virus, the Organization temporarily ceased in-person theatrical performances on March 12, 2020, and has not resumed.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The Organization's resources are classified and reported as separate classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions: include expendable resources that are used to carry out the Organization's operations and are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the Organization or may be limited by contractual agreements with side parties. In addition, net assets without donor restrictions include board designated endowment funds and property and equipment used in operations.

Net assets with donor restrictions: net assets subject to donor-imposed restrictions that will be met either by the actions of the Organization or through the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, including gifts and promises to give wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income may be made available for operations, subject to the Organization's spending policy.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Fair Value Measurements

The majority of the Organization's investments are held at The Rhode Island Community Foundation, a Rhode Island not-for-profit corporation (the "Foundation"). The total of the Foundation's net assets are valued at approximately \$1.093 billion stated at fair value (per the December 31, 2019 audited financial statements) and the Organization's allocated share of the net assets as of June 30, 2020 and 2019 is approximately \$3.2 million or .3%. Since the majority of the Organization's investments are invested in the Foundation, the Foundation's investment policy is included within these disclosures in order to provide further detail on how fair value has been determined by the Foundation.

Trinity Repertory Company
Notes to Financial Statements
June 30, 2020 and 2019

The fair values of the financial instruments as of December 31, 2019 and 2018, represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Foundation based on the best information available in the circumstances.

The Foundation follows generally accepted accounting principles ("GAAP") regarding the treatment of transactions in which the Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor. GAAP requires that if a Not-for-Profit Organization ("NPO") establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments. The Foundation maintains variance power and legal ownership of agency endowment funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with GAAP, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

All investments are reported at fair value. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. Level 1 includes debt and equity securities that trade in an active exchange market, as well as U.S. Treasury securities;

Level 2 - observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and

Level 3 - unobservable inputs are used when little or no market data is available. Significant professional judgment is used in determining the fair value assigned to such assets or liabilities. This category includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Investment management and custody fees represent fees paid directly to the investment managers.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities. There were no changes in the methodologies from June 30, 2019 to June 30, 2020. There were no transfers between levels for the periods presented.

Trinity Repertory Company
Notes to Financial Statements
June 30, 2020 and 2019

Investments

Investments include those held by the Organization as well as the funds invested in the Foundation. The Foundation's portfolio is managed by outside investment managers who invest according to the investment guidelines established by the Investment Committee of the Board. The investment portfolio is allocated approximately 55% equity investments, 40% alternative investments, and 5% fixed income investments. The equity investments are further diversified into domestic, international, and emerging markets. The alternative investments are further diversified into private equity, real assets, and hedge/absolute return strategies. Additionally, the entire portfolio is diversified across economic sectors, geographic locations, and industries.

Investments held by the Organization in marketable securities are reported at market value in the accompanying statements of financial position. All investments are stated at their fair value. Investments received by gift are initially recorded at fair value at the date of receipt. Fair values for exchange-traded funds are based on quoted market prices. The fair values assigned to these assets do not necessarily represent amounts that might be realized upon their ultimate disposition.

Realized and unrealized investment gains or losses are determined by comparison of the asset cost basis to net proceeds received at the time of disposition on a first in first out basis (realized) and comparison of the difference between market values and the cost basis (unrealized), respectively. Dividend and interest income are recognized when earned.

Property and Equipment

Property and equipment acquired are recorded at cost per project. It is the Organization's policy to capitalize expenditures for these items in excess of \$5,000 (per project). Lesser amounts are expensed. Building, equipment, and furniture are being depreciated over the useful life of the related asset using the straight-line method, with a half of a year's depreciation recognized in the years of acquisition and disposal. Leasehold improvements are amortized over the shorter of useful life or periods, including options, if any, specified in the related lease agreements.

Advertising Costs

Advertising costs are charged to operations at the time the advertising occurs, except for direct response marketing and other expenses incurred related to the subsequent season's performances that are deferred and recognized in the season when the related revenue is recognized. Advertising expense, including amounts included in cancelled performance costs, for the years ended June 30, 2020 and 2019 was \$276,494 and \$332,190, respectively.

Production Costs

Production costs are capitalized at cost and are amortized over the estimated life of the theatrical production. Since all productions closed prior to the issuance of the financial statements, all production costs have been expensed. The Organization maintains certain scenery and costume inventories of past productions. The Organization is unable to determine future use of the scenery and costumes and therefore they are expensed over the run of the public performances of the original show.

Trinity Repertory Company
Notes to Financial Statements
June 30, 2020 and 2019

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Significant estimates used in the preparation of these financial statements include depreciation and present value of unconditional promises to give. Actual results could differ from those estimates.

Tax Status and Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. The Organization is obligated for unrelated business income tax on net income from program advertising. The Organization has incurred net losses from this activity; therefore, there is no tax liability on this unrelated business activity. As of June 30, 2020, the Organization had approximately \$520,000 in net operating loss carryforwards, which begin to expire in the year 2032. The carried forward losses have been fully reserved for since management is unable to determine the actual utilization of these losses.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. There are no income tax related penalties and interest included in these financial statements.

New Accounting Pronouncements Adopted in Current Year

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASC 606"). ASC 606 supersedes the prior revenue recognition requirements (codified as ASC 605, Revenue Recognition). ASC 606 established a core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. All references to the "new guidance" include ASC 606.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 was issued to improve and clarify existing guidance on revenue recognition of grants and contracts by not-for-profit organizations ("NFPs") because there was diversity in practice among NFPs with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. This ASU also provides guidance to help determine whether a contribution is conditional or unconditional, and better distinguish a donor-imposed condition from a donor-imposed restriction. The adoption of ASU 2018-08 did not have a significant impact on the Organization's results of activities, statement of financial position and cash flows.

Revenue and Support Recognition

Contributions and promises to give - Grants and contributions are recognized when cash is received or when the donor makes a promise to give to the Organization that is, in substance, unconditional. Grants and contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions and grants are recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions. The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

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Revenue from contracts with customers - The Organization accounts for ticket sales, MFA Program, service charge and facility, education and engagement, concessions, and program advertising as exchange transactions in the statements of activities and changes in net assets. Revenue from contracts with customers are treated as revenues without donor restrictions. Funds received in advance from customers for services that have not been performed have been recorded as contract liabilities and recorded as deferred income in the statement of financial position.

Other revenues are obtained from rental income, miscellaneous, and investment income. These revenues are used to offset program, management and general, and fundraising expenses. Revenue from these sources are recognized when earned. Certain investment income has been classified as with donor restrictions based on donor stipulations.

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), in the Accounting Standards Codification (ASC). ASC 606 supersedes the prior revenue recognition requirements (codified as ASC 605, *Revenue Recognition*). ASC 606 established a core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, companies need to use more judgment and make more estimates than under prior guidance. Judgments include identifying performance obligations in the contract, estimating the amount of consideration to include in the transaction price, and allocating the transaction price to each performance obligation.

The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs -Contracts with Customers*, which requires the deferral of incremental costs (primarily commissions) of obtaining a contract with a customer. All references to the "new guidance" include ASC 606 and/or ASC 340-40.

The Organization adopted the requirements of the new guidance as of July 1, 2019, utilizing the modified retrospective method of transition. No adjustment to net assets as of July 1, 2019 was necessary. The Organization applied the new guidance using the practical expedient provided in ASC 606 that allows the guidance to be applied only to contracts that were not complete as of July 1, 2019. Adoption of the new guidance resulted in minimal changes to the Organization's accounting policies for revenue recognition, trade and other receivables, and contract liabilities.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Organization performs the following steps (i) identify contracts with customers; (ii) Identify performance obligations; (iii) determine the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Organization satisfies each performance obligation.

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The following summarizes the Organization's performance obligations:

Ticket sales

Ticket sales represent the sums actually paid for individual tickets of admission to a production of the Organization including handling and other fees. Tickets are non-refundable at the time of receipt, unless a performance is cancelled. The Organization estimates the number of cancellations and records a reserve if deemed material. Fees are non-refundable at the time of receipt. The Organization allows for exchanges under certain circumstances for tickets of equal or lesser value. The total yearly adjustment for exchanged tickets is immaterial to the Organization. Tickets purchased in advance are recorded as contract liabilities by the Organization. Advanced ticket sales are recorded as revenue when the performance related to the ticket sale is complete. Admission is recognized at a specific point in time, which is when the performance related to the ticket is complete.

Service charge and facility income

Service charges and facility fees represent the income received as an additional charge at the time of sale when purchasing a ticket. These charges are used for facility upkeep, processing and/or printing the individual ticket of admission to a production of the Organization. These fees are non-refundable at the time of receipt. Service charge and facility income is recognized at a specific point in time, which is when the performance related to the ticket sale income is complete.

MFA Program income

MFA Program income represents income received from an agreement with Brown University to put on the educational program related to acting and directing at the University. Income is calculated as the budgeted amount to establish and execute the education program on a yearly basis. MFA Program income is recognized at a specific point in time, which is the first day of the quarter that the income is related to.

Other exchange transactions

Royalties are recognized when the performance is complete. Education income is recognized in the period to which the fees relate. Concession income is recognized when the sale occurs. Theater tour events is recognized when the event is complete. Enhancement income is recognized over the length of the production.

The timing of revenue recognition, billings and cash collections results in contract liabilities which are shown as deferred revenue on the statements of financial position. Contract liabilities as of June 30, 2020 and 2019 were \$1,974,577 and \$2,205,646, respectively.

2. RESTRICTIONS ON NET ASSETS

Net Assets Without Donor Restrictions

The Board-designated net assets consist of The National Endowment for the Arts ("NEA") cash reserve which totaled \$260,375 as of June 30, 2020 and 2019, respectively. Investment earnings on these funds are without donor restrictions.

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Net Assets With Donor Restrictions

The following net assets are restricted for the following as of June 30:

	<u>2020</u>	<u>2019</u>
Grants and Contributions		
Future periods and programs		
Future programs and periods	\$ 494,410	\$ 679,608
Capital campaign (Note 10)	475,000	25,000
Excess investment earnings - Funds (Note 8)	<u>287,547</u>	<u>457,747</u>
	1,256,957	1,162,355
Less: Discount for present value and reserve for uncollectible	<u>(199,664)</u>	<u>(22,210)</u>
	<u>1,057,293</u>	<u>1,140,145</u>
Donor-Designated Endowments		
Donor directed use of investment income		
Project Discovery Endowment	685,018	643,465
Chace Endowment	500,000	500,000
NEA Challenge Grant Endowment	435,000	435,000
Richard Cumming Endowment Fund	271,933	230,360
NEA Challenge Grant Cash Reserve	262,500	262,500
Duke Endowment	213,194	213,194
General Endowment	137,487	135,610
Kavanaugh Fund	51,092	51,092
Robert Clayton Black Fellowship Fund	48,925	45,925
Eustis Endowment	45,650	45,650
John and Yvette Harpootian Fund	35,600	35,600
Heidi Keller Moon Fund for Project Discovery	35,000	30,000
Claiborne and Nuala Pell Fund	30,100	30,100
Stephen Hamblett Memorial Fund	30,000	30,000
Rakatansky Endowment	30,000	30,000
Victoria Irene Ball Fund	24,572	24,572
Michael and Donna Lee Gennaro Fund	17,700	17,700
Margo Skinner Memorial Fund	16,400	16,375
Tilles Family Endowment Fund	16,225	16,225
Barbara Meek Memorial Fund	14,210	14,110
Ed Hall Fund	<u>12,794</u>	<u>12,794</u>
	2,913,400	2,820,272
Less: Discount for present value	<u>(186)</u>	<u>(6,967)</u>
	<u>2,913,214</u>	<u>2,813,305</u>
	<u>\$ 3,970,507</u>	<u>\$ 3,953,450</u>

The Organization's endowment consists of several donor-restricted endowment funds established for specific purposes. As required by generally accepted accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Organization classifies as Donor-Designated Endowments (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations and decrements to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified as Donor-Designated Endowment is classified as Excess Investment Earnings until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following facts in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund;
- b. The purposes of the Organization and the donor-restricted endowment fund;
- c. General economic conditions;
- d. The possible effect of inflation and deflation;
- e. The expected total return from income and the appreciation of investments;
- f. Other resources of the Organization; and
- g. The investment policy of the Organization.

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for endowment assets with the primary goal of maintaining the original value of the endowment principal, while providing funding to programs supported by its endowment. Under this policy, the endowment assets are invested in a manner that is intended to produce income and preserve principal while assuming a very low level of investment risk. See Note 8 investment income spending policy.

3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

	<u>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents	\$ 5,081,518	\$ 2,639,932
Investments	171,933	167,814
Unconditional promises to give	<u>40,600</u>	<u>485,795</u>
	5,294,051	3,293,541
Liquidity resources		
Unused line of credit	<u>300,000</u>	<u>300,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 5,594,051</u>	<u>\$ 3,593,541</u>

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The Organization's cash flows are substantially supported by the performances at their theater. The Organization produces and performs at their theater and generates cash flow through ticket sales and concessions. The Organization receives advance ticket sales for the productions at their theater. Due to the impacts of the SARS-CoV-2 virus, the Organization is not having performances at the theater. The Organization has an agreement with a local university to provide theater education programs as a part of a degree program at the university. In addition, the Organization has pledge campaigns to fund operations and other projects. The Organization's endowment funds consist of donor-restricted endowments. The Organization's endowment policy provides for an annual distribution for operating purposes.

4. CONCENTRATION OF CREDIT RISK AND RESTRICTED CASH

The Organization maintains its cash and cash equivalent balances in various financial institutions. Certain balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. One of the Organization's accounts is insured by the National Credit Union Share Insurance Funds up to \$250,000. One of the Organization's accounts is fully insured by the Share Insurance Fund. At June 30, 2020, the Organization's cash and cash equivalents uninsured balances totaled \$3,623,272. The Organization has not experienced any losses in these accounts and does not believe they are exposed to any significant credit risk on cash and cash equivalents.

The Organization's investment account is insured by the Securities Investor Protection Corporation ("SIPC") up to \$500,000 per customer. At June 30, 2020, the Organization's investment balance was fully insured.

The Organization has obtained a letter of credit in the amount of \$58,422 as part of an obligation to post a bond under a collective bargaining agreement with the Actors' Equity Association. The bond currently expires in June 2021.

5. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Fair Value of Financial Instruments

The fair value and carrying amount of the Organization cash and short-term investments as of June 30, 2020 and 2019 was \$5,423,977 and \$2,867,531, respectively, reflected as cash and cash equivalents on the statements of financial position. Cash and short-term investments' carrying amount approximates fair value because of the short maturities of those investments.

Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis at June 30, 2020 consist of exchange traded funds. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of the Organization's assets as of June 30, 2020 was \$171,933 and the cost basis was \$162,550. The fair value of the Organization's assets as of June 30, 2019 was \$167,814 and the cost basis was \$162,550.

6. UNCONDITIONAL PROMISES TO GIVE

When estimating the value of unconditional promises to give, management considers the relationships with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness and incorporates the information into a fair value measurement computed using present value techniques. The interest element resulting from amortization of the discount for the time value of money, computed using the effective interest rate method, is reported as contribution revenue. Unconditional promises to give to be received after one year are discounted at a rate of 5%. Due to the impacts of the SARS-CoV-2 virus, management has created a reserve for uncollectible promises to give as of June 30, 2020.

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Unconditional promises to give consist of the following as of June 30, 2020:

	Less Than One		
	<u>Year</u>	<u>Over One Year</u>	<u>Total</u>
Without donor restrictions	\$ 90,600	\$ -	\$ 90,600
With donor restrictions	<u>305,603</u>	<u>398,250</u>	<u>703,853</u>
	396,203	398,250	794,453
Less: Discount for present value and reserve for uncollectible	<u>(125,000)</u>	<u>(124,850)</u>	<u>(249,850)</u>
	<u>\$ 271,203</u>	<u>\$ 273,400</u>	<u>\$ 544,603</u>

Unconditional promises to give consist of the following as of June 30, 2019:

	Less Than One		
	<u>Year</u>	<u>Over One Year</u>	<u>Total</u>
Without donor restrictions	\$ 485,795	\$ -	\$ 485,795
With donor restrictions	<u>416,258</u>	<u>276,750</u>	<u>693,008</u>
	902,053	276,750	1,178,803
Less: Discount for present value	<u>-</u>	<u>(29,177)</u>	<u>(29,177)</u>
	<u>\$ 902,053</u>	<u>\$ 247,573</u>	<u>\$ 1,149,626</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

<u>Description</u>	<u>Life/Years</u>	<u>2020</u>	<u>2019</u>
Land	n/a	\$ 234,100	\$ 100,000
Building and improvements	10-50	8,772,387	8,242,191
Leasehold property	Life of lease	1,800,000	1,800,000
Equipment	3-5	1,127,877	1,110,364
Furniture and fixtures	5-7	1,248,958	1,248,958
Leasehold improvements	10-20	<u>601,072</u>	<u>601,072</u>
		13,784,394	13,102,585
Less: Accumulated depreciation and amortization		(8,271,499)	(7,711,715)
Construction in progress		<u>79,601</u>	<u>227,520</u>
		<u>\$ 5,592,496</u>	<u>\$ 5,618,390</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$559,784 and \$554,378, respectively.

Construction in progress consists of costs incurred in relation to multiple renovation projects. Since the projects were not complete by June 30, 2020, the costs have not been depreciated.

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8. ASSETS HELD IN FUND

The Organization transfers all endowment monies received that are with donor restriction to The Rhode Island Community Foundation, a Rhode Island not-for-profit corporation (the "Foundation"). The Foundation created The Fund for Trinity Repertory Company (the "Fund"). The Fund also maintains Board-designated net assets (Note 2) for investment purposes. Any net excess investment earnings earned by the Fund after making an annual distribution to the Organization are further restricted and reflected within net assets with donor restrictions. During the years ended June 30, 2020 and 2019, the Fund's investments had a net gain (loss) of \$(170,199) and \$21,279, respectively. The balance in with donor restrictions is \$287,547 and \$457,747 as of June 30, 2020 and 2019, respectively (see Note 2).

The Foundation manages its investment income spending policy by the "total return" method, which utilizes the Board-approved prudent spending rate percentage applied against a sixteen-quarter average investment portfolio market value. This method allows for the investments to be invested over the long term in order to achieve its primary investment objective. The Foundation's spending rate percentage ranges from 5% to 6.53%.

During the years ended June 30, 2020 and 2019, the Fund made a distribution of \$134,493 and \$122,917, respectively. The assets of the Fund are commingled with other assets of the Foundation for investment purposes.

The table below presents the Organization's allocated share in the Foundation's investments using investment categories listed within the Foundation's audited statements as of December 31, 2019 with the fair values reflected as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Short term investments				
Cash and cash equivalents	\$ 88,350	\$ -	\$ -	\$ 88,350
Mutual funds - fixed income	92,393	-	-	92,393
Mutual funds and common trust funds				
Equity	860,225	-	-	860,225
Real estate	60,258	-	-	60,258
Common stocks, preferred stock, and bonds				
US Treasury bonds	168	-	-	168
International bonds	1,351	-	-	1,351
Short duration bonds	-	-	-	-
International funds - equities and fixed income				
Emerging markets: equity	132,777	-	-	132,777
Developed markets: equity	666,818	-	-	666,818
Developed markets: fixed	51,174	-	-	51,174
Bonds				
International bonds	-	5,379	-	5,379
U. S. Treasury	-	53,438	-	53,438
Corporate	-	64,775	-	64,775
Asset-backed securities	-	46,675	-	46,675
Municipal	-	2,733	-	2,733
Hedge funds/flexible capital				
Multiple strategies	-	-	733,445	733,445
Private equity				
Private equity and venture capital funds	-	-	262,680	262,680
Real assets/inflation hedging				
Treasury inflation protected securities	-	-	84,592	84,592
Real estate and natural resources	-	-	14,689	14,689
	<u>\$ 1,953,514</u>	<u>\$ 173,000</u>	<u>\$ 1,095,406</u>	<u>\$ 3,221,920</u>

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The table below presents the Organization's allocated share in the Foundation's investments using investment categories listed within the Foundation's audited statements as of December 31, 2018 with the fair values reflected as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Short term investments				
Cash and cash equivalents	\$ 281,751	\$ -	\$ -	\$ 281,751
Mutual funds - fixed income	110,615	-	-	110,615
Mutual funds and common trust funds				
Equity	693,500	-	-	693,500
Real estate	53,630	-	-	53,630
Treasury inflation protected securities	-	-	-	-
Common stocks, preferred stock, and bonds				
US Treasury bonds	1,575	-	-	1,575
International bonds	6,179	-	-	6,179
Short duration bonds	215,477	-	-	215,477
International funds - equities and fixed income				
Emerging markets: equity	160,121	-	-	160,121
Developed markets: equity	512,159	-	-	512,159
Developed markets: fixed	52,119	-	-	52,119
Bonds				
International bonds	-	-	-	-
U. S. Treasury	-	-	-	-
Corporate	-	-	-	-
Asset-backed securities	-	-	-	-
Municipal	-	-	-	-
Hedge funds/flexible capital				
Multiple strategies	-	-	739,986	739,986
Private equity				
Private equity and venture capital funds	-	-	237,445	237,445
Real assets/inflation hedging				
Treasury inflation protected securities	-	-	91,733	91,733
Real estate and natural resources	-	-	3,605	3,605
	<u>\$ 2,087,126</u>	<u>\$ -</u>	<u>\$ 1,072,769</u>	<u>\$ 3,159,895</u>

The Organization is the income beneficiary of permanent endowment funds established with the Foundation. The fair value was approximately \$74,319 and \$78,380 at June 30, 2020 and 2019, respectively. These funds are considered assets of the Foundation and therefore, are not included in the Organization's financial statements. Interest earned on these endowment funds is distributed to the Organization by the Foundation on a periodic basis. The investment income is currently reflected in the accompanying statements of activities.

Investment income consists of the following for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 83,725	\$ 62,777
Realized gain on sale of investments	69,960	132,681
Unrealized gain (loss) on investments	(113,216)	14,598
Management fees and expenses	<u>(29,154)</u>	<u>(36,520)</u>
Total investment income	11,315	173,536
Less: Amount earned on operating activities	<u>(47,021)</u>	<u>(29,340)</u>
Net investment income (loss)	<u>\$ (35,706)</u>	<u>\$ 144,196</u>

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9. LOANS AND MORTGAGE PAYABLE

Term Loan

In 2017, the Organization restructured its long-term debt and entered into a 20-year loan agreement with a financial institution in the amount of \$1,750,000 (\$1,143,736 and \$1,231,240 outstanding at June 30, 2020 and 2019, respectively). Repayment of the loan is in equal installments of \$7,292 plus accrued interest. Interest on term loan is due monthly at the thirty-day London Interbank Offered Rate ("LIBOR") plus 2.0% (2.16% and 4.43% as of June 30, 2020 and 2019, respectively). The term loan has a first position Open-End Equity Mortgage, Security Agreement, and Assignment of Leases and Rents, with respect to 201 Washington Street and personal property and fixtures. The term loan contains certain administrative and restrictive financial covenants which provide for, among other things, minimum debt service coverage ratio and actual results must be within 105% of the board approved budget. As of June 30, 2020 and 2019, the Organization was in compliance with these covenants.

In addition, the Organization entered into a 3-year line of credit agreement with a bank (expiring December 2, 2022) which provides for maximum borrowings of \$300,000 with annual interest of prime plus 1% (4.25% and 6.50% as of June 30, 2020 and 2019, respectively). The line of credit has a second position Open-End Equity Mortgage, Security Agreement, and Assignment of Leases and Rents, with respect to 201 Washington Street and personal property and fixtures. No amounts were borrowed during the years ended June 30, 2020 and 2019.

Loan payable is due as follows at June 30:

Due during the year ending June 30, 2021	\$ 87,504
" " " " " June 30, 2022	87,504
" " " " " June 30, 2023	87,504
" " " " " June 30, 2024	87,504
" " " " " June 30, 2025	87,504
Thereafter through November 30, 2036	<u>706,216</u>
Total amount due	1,143,736
Less: Long-term portion	<u>(1,056,232)</u>
Current portion	<u>\$ 87,504</u>

Interest expense for the years ended June 30, 2020 and 2019 was \$46,020 and \$54,646, respectively.

Mortgage

In July 2019, the Organization purchased a property in the amount of \$356,000 (plus closing costs of \$6,849). The property is to be used for intern housing. The Organization obtained a ten-year mortgage to finance the purchase in the amount of \$213,600, with \$166,487 outstanding as of June 30, 2020. The mortgage is secured by the property and any personal property located on and used in connection with the intern housing. Monthly principal and interest payments commenced July 29, 2019. The annual interest rate is 4.75% for the first seven years of the mortgage and can be adjusted for the remaining term at 2.25% above the average of the three-year Federal Home Loan Bank of Boston Amortizing Advance Rate (not to be below 4.75%). During the year end June 30, 2020, the Organization prepaid \$40,000 of the mortgage to be reduced from the end of the borrowing period.

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Mortgage payable is due as follows at June 30:

Due during the year ending June 30, 2021	\$ 6,940
“ “ “ “ “ June 30, 2022	7,277
“ “ “ “ “ June 30, 2023	7,630
“ “ “ “ “ June 30, 2024	8,001
“ “ “ “ “ June 30, 2025	8,389
Thereafter through August 13, 2029	<u>128,250</u>
Total amount due	166,487
Less: Long-term portion	<u>(159,547)</u>
Current portion	<u>\$ 6,940</u>

Interest expense for the year ended June 30, 2020 was \$8,177.

10. CAPITAL CAMPAIGN

In fiscal year 2020, the Organization launched the quiet phase of a \$12 million capital campaign (the “Campaign”) to renovate the theater building, improve accessibility, and better utilize space. As of June 30, 2020, the Organization has received \$475,000, including pledges of \$320,000 restricted to the Campaign which are reflected within net assets with donor restrictions (note 2).

11. COMMITMENTS AND CONTINGENCIES

- a) Government supported programs are subject to audit by the granting agency.
- b) The Organization has two employment agreements which terms are through September 15, 2020 and June 30, 2023. The aggregate commitment under these agreements was approximately \$631,615 at June 30, 2020.
- c) The Organization contributes to three multiemployer pension plans under collective bargaining agreements covering union-represented employees, entirely in the entertainment industry. The vast majority of employers participating in these multiemployer plans are primarily engaged in the entertainment industry. These plans generally provide retirement benefits to vested participants based on their service to contributing employers, of which the Organization is one. In general, these plans are managed by a Board of Trustees with the unions appointing certain trustees and contributing employers of the plan appointing certain members. The Organization does not participate in any plan where it considers its contributions to be individually significant to the overall plan.

Based on information available to the Organization, one of the multiemployer plans to which it contributes is adequately funded under the applicable provisions of the Pension Protection Act enacted in 2006 (PPA). Two funds are in either "critical" or "endangered" status as those terms are defined in the PPA. The PPA requires all underfunded pension plans to improve their funding ratios within prescribed intervals based on their level of underfunding. Until the plan trustees develop the funding improvement plans or rehabilitation plans as required by the PPA, the Organization is unable to determine the amount of assessments the Organization may be subject to, if any.

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Under applicable law upon its ceasing to make contributions to, or other “withdrawal” from an underfunded multiemployer pension plan, the affected funds could seek contributions from the Organization for the Organization’s proportionate share of the plan’s unfunded vested liabilities. The Organization believes that under such circumstances, if a Fund were to seek to assess such contribution obligation upon the Organization’s alleged “withdrawal,” the Organization would have significant defenses against such assessment under applicable law.

The Organization cannot determine at this time the impact that any alleged withdrawal from the affected plans may have on the financial position, results of operations, or cash flows.

Approximately 10% (2020) and 16% (2019) of the Organization’s employees and contractors are participants in multiemployer plans. Pension and welfare expense for multiemployer plans was \$162,056 and \$213,533 for the years ended June 30, 2020 and 2019, respectively.

- d) In 1989, the Organization entered into an agreement with a key employee for post-employment benefits. Since the benefits are for past services, the estimated present value of the obligation was originally recorded during the year the obligation was entered into, fiscal 1989. The amount payable to the key employee for these post-employment benefits was calculated using a lifetime expectancy of 86 and the key employee reached the age of 86 in 2013. The annual cash obligation is \$50,000 per year and will continue until the death of the key employee.
- e) The Organization entered into a Memorandum of Agreement (“MOA”) with Brown University in September 2013 (renews automatically) to combine the academic resources of Brown University with the professional expertise of the Organization to produce graduate academic programs (The Brown/Trinity MFA in Acting and Directing Program). The MOA provides for two years’ advance notice of the intention by either party to terminate the program. As of June 30, 2020, management has represented that neither party has provided such notice.
- f) The Organization has been named in two claims for personal injury sustained at the Organization’s premises. The Organization’s insurance company is currently handling the claims. Management believes that the insurance coverage is sufficient to cover any claims which may be realized.
- g) Per an agreement with the State of Rhode Island and Providence Plantations, the Organization was awarded \$4,647,750 for the Lederer Theater and the Pell Chafee Performance Center, both in Providence, used for performance facilities, educational instruction, production, and administration. Of the total, \$1,500,000 was granted to reimburse the Organization for fire code improvements made prior to July 1, 2015 and was reflected within unrestricted capital contributions as of June 30, 2015. The remaining funds are conditional and are not recorded within the accompanying financial statements until completion of such projects. During the years ended June 30, 2020 and 2019, \$153,704 and \$215,159, respectively, was recorded for completed projects. As of June 30, 2020, \$199,487 of the award is remaining and is expected to be used in fiscal year 2021.

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- h) Relative to the Organization's investments held by the Foundation (Note 1), private equity and real estate investments are generally made through limited partnerships. Under the terms of these agreements, the Foundation is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain.
- i) The Organization occupies warehouse space under a lease which has a term expiring June 30, 2027. The approximate future minimum annual rental payments are as follows:

Due during the year ending	June 30, 2021	\$	45,000
" " " " "	June 30, 2022		45,000
" " " " "	June 30, 2023		49,500
" " " " "	June 30, 2024		49,500
" " " " "	June 30, 2025		49,500
Thereafter through June 30, 2027			<u>99,000</u>
Total amount due		\$	<u>337,500</u>

Accounting principles generally accepted in the United States of America require the Organization to amortize the aggregate of the total minimum lease payments (net of expected shortfall provision payments) on the straight-line basis over the term of the lease. The difference between the straight-line expense and amounts paid in accordance with the terms of its leases is recorded as deferred rent in the statements of financial position. Deferred rent as of June 30, 2020 and 2019 was \$18,447 and \$17,868, respectively.

- j) In 2018, the Organization entered into a 5-year license agreement with an internet-based customer relationship management system provider. The agreement has a renewal option. The Organization may terminate this agreement for any reason with written notice. Per the agreement, the internet-based customer relationship management system provider is entitled to a minimum annual charge and a percentage of sales in excess of a certain level. During the years ended June 30, 2020 and 2019, the Organization paid the minimal annual charge of \$28,892.

12. CAPITAL LEASE OBLIGATION

On June 30, 2014, the Organization entered into an agreement with a board member for the sale of the 87 Empire Street property. The sale price was determined by an independent appraisal that was completed in April 2014. The purchase was conditioned upon execution of a lease by the Organization and guaranteed by Brown University.

The Organization has signed a lease with the board member (purchaser) to lease back the premises sold to him on June 30, 2014. The lease is for an initial term of eleven years, with two renewal options by the Organization for an additional ten years. The Organization is responsible for all costs of maintaining the property including utilities, real estate taxes, and capital expenditures.

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The Organization has reflected the capital lease at the appraised fair market value of \$1,800,000. The balance of accumulated depreciation as of June 30, 2020 and 2019 was \$471,428 and \$385,714, respectively. The economic substance of the capital lease is that the Organization is financing the acquisition of the assets through the lease, and, accordingly, it is recorded within the Organization's assets and liabilities.

The lease provides for minimum annual payments as follows as of June 30, 2020:

Year ending June 30, 2021	\$	152,938
“ “ “ “ 2022		155,967
“ “ “ “ 2023		159,117
“ “ “ “ 2024		162,299
“ “ “ “ 2025		165,545
Thereafter through June 30, 2035		<u>1,848,925</u>
Total lease payments		2,644,791
Less: Amount representing interest		<u>(1,128,469)</u>
Net Principal Due as of June 30, 2020		1,516,322
Less: Long-term portion		<u>(1,363,384)</u>
Current Portion	\$	<u>152,938</u>

13. EMPLOYEE BENEFIT PLAN

The Organization has a 401(k) salary deferral plan covering substantially all employees. Under the plan, the Organization may make a contribution to the employee plan on a discretionary basis. No amounts were contributed for the years ended June 30, 2020 and 2019.

14. FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the various programs and the supporting services has been summarized on a functional basis in the financial statements of activities. Costs have been allocated among the programs and supporting services based on analysis of personnel time and utilization of related activities. Management and general expense include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization. The expenses that are allocated include rent, utilities, maintenance, depreciation and amortization, which are allocated on a square footage basis, as well as salaries, benefits, payroll taxes, office expense, insurance, and miscellaneous, which are allocated on the basis of estimates of time and effort.

15. DONATED SERVICES AND MATERIALS

The Organization received donated services and materials during the years ended June 30, 2020 and 2019 in support of its programs and operations. The fair market value has been recorded in the accompanying financial statements.

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Donated services and materials consist of the following for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Advertising	\$ 492,100	\$ 497,868
Rent (Administrative office and MFA program building)	114,288	114,288
Volunteer services (ushers)	46,715	58,089
Airline tickets	14,400	14,400
Furniture, clothing and other	10,241	4,457
Professional services	2,853	31,474
	<u>\$ 680,597</u>	<u>\$ 720,576</u>

16. NEW ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet for all of the Organization’s lease obligations. This ASU is currently effective for years beginning after December 15, 2021 (fiscal year 2023).

The Organization is currently evaluating the effect that this pronouncement will have on its financial statements and related disclosures.

17. EMPHASIS OF MATTER

Management is currently evaluating the introduction of the SARS-CoV-2 virus to the United States and its impact on the theatrical industry and has concluded that that while it is reasonably possible that the virus could have a negative effect on the Organization’s financial condition and results of operations, the specific impact is not readily determinable as of the date of these financial statements.

On April 13, 2020, the Organization was approved for The Paycheck Protection Program (PPP) loan in amount of \$1,230,200. Per the loan agreement, the Organization has a twenty-four week deferral period starting on April 14, 2020. After the deferral period, payments on the loan agreement will commence and are due monthly with a fixed interest rate of 1.00%. The loan agreement contains forgiveness provision.

18. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 19, 2020, the date which the financial statements were available to be issued. Management has determined that there are no subsequent events that require adjustment to or disclosure in these financial statements.