

NEXT ACT THEATRE, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2016 AND 2015

NEXT ACT THEATRE, INC.

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Independent Auditor's Report

Board of Directors
Next Act Theatre, Inc.
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Next Act Theatre, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, cash flows and functional expenses 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 financial statements referred to above present fairly, in all material respects, the financial position of Next Act Theatre, Inc. as of June 30, 2016 and 2015, 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.

A handwritten signature in black ink that reads "Krause & Associates, SC". The signature is written in a cursive, somewhat stylized font.

Krause & Associates, SC
Grafton, Wisconsin
September 1, 2016

NEXT ACT THEATRE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 325,374	\$ 330,814
Restricted – equity bond	14,032	14,028
Pledges receivable, net	1,000	4,600
Prepaid expenses	<u>30,469</u>	<u>26,678</u>
Subtotal	370,875	376,120
PROPERTY AND EQUIPMENT		
Office equipment and furniture	8,606	5,377
Production equipment	97,577	97,577
Leasehold improvements	<u>1,109,346</u>	<u>1,109,346</u>
Total property and equipment	1,215,529	1,212,300
Less: accumulated depreciation	<u>(241,610)</u>	<u>(207,674)</u>
Total property and equipment, net	<u>973,919</u>	<u>1,004,626</u>
TOTAL ASSETS	<u>\$1,344,794</u>	<u>\$1,380,746</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 4,927	\$ 6,777
Deferred revenue	<u>133,368</u>	<u>147,619</u>
TOTAL LIABILITIES	138,295	154,396
NET ASSETS		
Unrestricted	1,074,452	1,094,774
Temporarily restricted	<u>132,047</u>	<u>131,576</u>
Total net assets	<u>1,206,499</u>	<u>1,226,350</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,344,794</u>	<u>\$1,380,746</u>

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

NEXT ACT THEATRE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support			
Government grants	\$ 21,209	\$ -	\$ 21,209
United Performing Arts Fund	167,174	-	167,174
Donations	137,317	7,200	144,517
Foundation grants	57,280	-	57,280
Fund-raising events	<u>26,922</u>	<u>-</u>	<u>26,922</u>
 Total public support	 <u>409,902</u>	 <u>7,200</u>	 <u>417,102</u>
Performance and other revenue			
Ticket sales and contract income	275,051	-	275,051
Theatre rental	29,435	-	29,435
Interest income	229	-	229
Education	24,159	-	24,159
Other revenue	<u>28,053</u>	<u>-</u>	<u>28,053</u>
 Total performance and other revenue	 356,927	 -	 356,927
Released from restrictions	<u>6,729</u>	<u>(6,729)</u>	<u>-</u>
 Total public support and revenue	 <u>773,558</u>	 <u>471</u>	 <u>774,029</u>
EXPENSES			
Production and education	625,790	-	625,790
Operating	117,710	-	117,710
Fundraising	<u>50,380</u>	<u>-</u>	<u>50,380</u>
 Total expenses	 <u>793,880</u>	 <u>-</u>	 <u>793,880</u>
 Changes in net assets	 (20,322)	 471	 (19,851)
 NET ASSETS, beginning of year	 <u>1,094,774</u>	 <u>131,576</u>	 <u>1,226,350</u>
 NET ASSETS, end of year	 <u>\$ 1,074,452</u>	 <u>\$ 132,047</u>	 <u>\$ 1,206,499</u>

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

NEXT ACT THEATRE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support			
Government grants	\$ 25,744	\$ -	\$ 25,744
United Performing Arts Fund	169,711	-	169,711
Donations	219,321	39,050	258,371
Foundation grants	60,500	6,000	66,500
Fund-raising events	<u>32,462</u>	<u>-</u>	<u>32,462</u>
Total public support	<u>507,738</u>	<u>45,050</u>	<u>552,788</u>
Performance and other revenue			
Ticket sales and contract income	244,518	-	244,518
Theatre rental	18,935	-	18,935
Interest income	204	-	204
Education	14,504	-	14,504
Other revenue	<u>26,483</u>	<u>-</u>	<u>26,483</u>
Total performance and other revenue	304,644	-	304,644
Released from restrictions	<u>28,496</u>	<u>(28,496)</u>	<u>-</u>
Total public support and revenue	<u>840,878</u>	<u>16,554</u>	<u>857,432</u>
EXPENSES			
Production and education	623,879	-	623,879
Operating	120,745	-	120,745
Fundraising	<u>53,087</u>	<u>-</u>	<u>53,087</u>
Total expenses	<u>797,711</u>	<u>-</u>	<u>797,711</u>
Changes in net assets	43,167	16,554	59,721
NET ASSETS, beginning of year	<u>1,051,607</u>	<u>115,022</u>	<u>1,166,629</u>
NET ASSETS, end of year	<u>\$ 1,094,774</u>	<u>\$ 131,576</u>	<u>\$ 1,226,350</u>

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

NEXT ACT THEATRE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (19,851)	\$ 59,721
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	33,936	33,855
(Increase) decrease in pledges receivables	3,600	54,616
(Increase) decrease in prepaid expenses	(3,791)	11,101
Increase (decrease) in accounts payable	(1,850)	6,257
Increase (decrease) in deferred revenue	<u>(14,251)</u>	<u>2,911</u>
 Total adjustments	 <u>17,644</u>	 <u>108,740</u>
 Net cash provided by operating activities	 (2,207)	 168,461
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in restricted – equity bond	(4)	(7)
Purchase of property and equipment	<u>(3,229)</u>	<u>-</u>
 Net cash used in investing activities	 <u>(3,233)</u>	 <u>(7)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of note payable	<u>-</u>	<u>(99,157)</u>
 Net cash provided by (used in) financing activities	 <u>-</u>	 <u>(99,157)</u>
 Net increase (decrease) in cash and cash equivalents	 (5,440)	 69,297
 Cash and cash equivalents at beginning of year	 <u>330,814</u>	 <u>261,517</u>
 Cash and cash equivalents at end of year	 <u>\$ 325,374</u>	 <u>\$ 330,814</u>
 Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	<u>\$ -</u>	<u>\$ 2,122</u>

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

NEXT ACT THEATRE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Production and <u>Education</u>	<u>Operating</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Advertising and marketing	\$ 42,142	\$ -	\$ -	\$ 42,142
Depreciation and amortization	33,247	689	-	33,936
Education and outreach	14,941	-	-	14,941
Fundraising	-	-	9,168	9,168
Insurance	6,936	2,197	1,037	10,170
Interest	-	-	-	-
Office and supplies	26,190	9,147	-	35,337
Outside services	63,687	-	-	63,687
Payroll salaries and wages	199,391	63,153	29,790	292,334
Payroll taxes	24,648	7,806	3,683	36,137
Payroll employee benefits	31,384	9,941	4,688	46,013
Postage	5,173	5,174	545	10,892
Production material	32,842	-	-	32,842
Professional fees	3,079	3,660	460	7,199
Rent	72,064	10,768	-	82,832
Royalties	18,019	-	-	18,019
Sales taxes	15,297	-	-	15,297
Service charges	21,611	1,137	-	22,748
Telephone and utilities	<u>15,139</u>	<u>4,038</u>	<u>1,009</u>	<u>20,186</u>
Total expenses	<u>\$ 625,790</u>	<u>\$117,710</u>	<u>\$ 50,380</u>	<u>\$ 793,880</u>

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

NEXT ACT THEATRE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Production and <u>Education</u>	<u>Operating</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Advertising and marketing	\$ 52,924	\$ -	\$ -	\$ 52,924
Depreciation and amortization	33,166	689	-	33,855
Education and outreach	5,891	-	-	5,891
Fundraising	-	-	11,250	11,250
Insurance	9,476	2,777	1,385	13,638
Interest	-	2,122	-	2,122
Office and supplies	32,013	12,522	-	44,535
Outside services	51,685	-	-	51,685
Payroll salaries and wages	207,676	60,878	30,349	298,903
Payroll taxes	26,484	7,763	3,870	38,117
Payroll employee benefits	25,654	7,520	3,749	36,923
Postage	6,542	6,542	689	13,773
Production material	28,070	-	-	28,070
Professional fees	5,035	4,051	736	9,822
Rent	69,367	10,365	-	79,732
Royalties	16,326	-	-	16,326
Sales taxes	13,372	-	-	13,372
Service charges	24,313	1,280	-	25,593
Telephone and utilities	<u>15,885</u>	<u>4,236</u>	<u>1,059</u>	<u>21,180</u>
Total expenses	<u>\$ 623,879</u>	<u>\$120,745</u>	<u>\$ 53,087</u>	<u>\$ 797,711</u>

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

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization and business activity

Next Act Theatre, Inc. (Theatre) was incorporated in 1987 under the laws of the State of Wisconsin. The Theatre is in the business of the production and performance of dramatic plays for the general public and the operation of a theatre venue.

2. Accounting method

The Theatre follows the accrual method of accounting wherein revenues and expenses are recorded in the period earned or incurred. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Theatre are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or may not be met, either by actions of the Theatre and/or the passage of time. When a restriction is met, restricted net assets are transferred to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to a donor imposed restriction that they be maintained permanently by the Theatre. As of June 30, 2016 and 2015 the Theatre has no permanently restricted net assets.

3. Cash and cash equivalents

The Theatre considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

4. Education

The Theatre sponsors the Next Actors program, which is designed to provide youth the opportunity to experience the theater as well as other acting classes. Revenues and expenses directly related to educational programs have been recorded as such on the statements of activities.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Property and equipment

Property and equipment are recorded at cost or fair market value if donated. Major additions and improvements are capitalized. Maintenance and repairs are expensed currently. Property and equipment is depreciated over the estimated useful lives of the assets using the straight-line method ranging from 5 to 10 years. Leasehold improvements are amortized over 10 years using the straight-line method.

6. Deferred revenue and prepaid expenses

Deferred revenue represents advance subscriptions and grants for the subsequent performance season. Prepaid expenses represent disbursements paid in advance for the subsequent performance season.

7. Advertising costs

Advertising and marketing costs are expensed as incurred.

8. Production expenses

Production expenses consist of all direct costs associated with the production of the Theatre's performances. All other costs are considered operating expenses.

9. Income taxes

The Theatre is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Theatre evaluates its tax positions and assesses their uncertainty, if any, through review and application of various sources of tax authority including statutes, regulations, rulings, court cases and widely held administrative practices.

The Theatre's informational returns are subject to examination by the IRS, generally for three years after they were filed. Management believes that no uncertain tax positions exist for the Theatre at June 30, 2016 and 2015. The Theatre has not incurred any interest or penalties for income taxes for the years ended June 30, 2016 and 2015.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Use of estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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.

11. Subsequent events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through September 1, 2016, which is the date that the financial statements were available to be issued.

B - RESTRICTED – EQUITY BOND

The Theatre employs individuals that are members of the Actors Equity Association. Under the terms of the Security Agreement between the Theatre and the Association, the Theatre is required to deposit money for the protection of the actors covered under the agreement and performing in Theatre productions. As required by the agreement, the Theatre has deposited funds into a money market account. The account balance was \$14,032 and \$14,028 as of June 30, 2016 and 2015, respectively.

C - PROMISES TO GIVE

Unconditional promises to give are recognized as pledges receivable and revenue in the period the promise is received. Conditional promises to give are recognized as pledges receivable and revenue in the period in which the conditions are substantially met. Pledges receivable as of June 30, 2016 and 2015 include pledges from private sources.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction is met, restricted net assets are transferred to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

C - PROMISES TO GIVE – CONTINUED

Promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on these amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discounts is included in contribution revenue.

Pledges receivable at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Receivable	\$ 1,000	\$ 4,600
Less allowance for uncollectible	<u>-</u>	<u>-</u>
Net receivable	<u>\$ 1,000</u>	<u>\$ 4,600</u>

Future amounts due, at discounted value:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 1,000	\$ 4,600
One to five years	-	-
More than five years	<u>-</u>	<u>-</u>
Total	<u>\$ 1,000</u>	<u>\$ 4,600</u>

D – NOTE PAYABLE

During 2011, the Theatre secured a \$321,000 note from a local bank with an annual interest rate of 5%. Proceeds of the note were used to complete the construction of the new theatre space. Interest was due monthly. The balance was paid in full during 2015.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2016 and 2015:

	2016	2015
Capital equipment and improvements	\$ 103,900	\$ 103,429
Education	28,147	28,147
Total	\$ 132,047	\$ 131,576

F - LEASE COMMITMENTS

On April 1, 2011, the Theatre entered into a noncancellable operating lease expiring on September 30, 2026, a period of 15 years and 6 months. The space includes, performance, administration and box office. Future minimum lease payments are as follows:

2017	\$ 62,000
2018	63,860
2019	65,720
2020	67,704
2021	69,812
2022	71,920
2023	74,028
2024	76,260
2025	78,492
2026	80,848

Rent expense was \$82,832 and \$79,732 for 2016 and 2015, respectively.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

G - EMPLOYEE RETIREMENT/BENEFIT PLAN

The Theatre has a defined contribution salary deferral plan (401(k) Plan) covering substantially all non-union employees, who meet certain requirements. Eligible employees may defer compensation up to 100% of compensation not to exceed the maximum amount allowed by law. The Theatre did not make any employer contributions to the plan for the years ended June 30, 2016 and 2015.

The Theatre employs individuals that are members of a union. The union sponsors a retirement and benefit plan for its members. Under the plan, the Theatre contributes to the Actors' Equity Fund. Plan expenses incurred by the Theatre during 2016 and 2015 were \$28,918 and \$24,392, respectively.

H - THEATRE CONSTRUCTION/LEASEHOLD IMPROVEMENTS

In 2009, the Theatre began a fundraising campaign, successfully achieving its goal by the end of 2011. The Theatre negotiated a 15-year lease for ground floor space in the emerging Fifth Ward within a mixed-use development called South Water Works. The new, larger theatre, was completed in October 2011, holds 152 patrons, and provides production facilities and administrative space in support of the work onstage. This new, professional space is also available for rent by other performing arts groups, with rental subsidy funds available as necessary.

I – CONCENTRATION OF CREDIT RISK FOR CASH AND CASH EQUIVALENTS

The Theatre maintains cash balances at a local bank. Accounts at the bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016, all amounts were insured.

J – FUNDRAISING

Fundraising expenses consist of only those expenses directly related to generation of fundraising event revenue. General fundraising and development expenses are reported as operating expenses.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

K – RECONCILIATION OF ACTIVITIES TO OPERATIONS

A reconciliation of functional operating revenue and expenses to operating results, including temporarily restricted activity, follows:

Change in net assets	\$ (19,851)
Depreciation and amortization	<u>33,936</u>
Net operating surplus	<u>\$ 14,085</u>