

NEXT ACT THEATRE, INC.

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

JUNE 30, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 style with a large initial 'K' and a stylized 'A'.

Krause & Associates, SC
Grafton, Wisconsin
December 17, 2018

NEXT ACT THEATRE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 354,526	\$ 369,570
Restricted – equity bond	14,934	14,927
Grants receivable	10,422	-
Pledges receivable, net	6,113	800
Prepaid expenses	<u>37,296</u>	<u>36,487</u>
Subtotal	423,291	421,784
PROPERTY AND EQUIPMENT		
Office equipment and furniture	15,110	11,778
Production equipment	107,109	97,577
Leasehold improvements	<u>1,109,346</u>	<u>1,109,346</u>
Total property and equipment	1,231,565	1,218,701
Less: accumulated depreciation	<u>(310,026)</u>	<u>(275,686)</u>
Total property and equipment, net	<u>921,539</u>	<u>943,015</u>
TOTAL ASSETS	<u>\$1,344,830</u>	<u>\$1,364,799</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,450	\$ 3,841
Deferred revenue	<u>146,321</u>	<u>154,890</u>
TOTAL LIABILITIES	147,771	158,731
NET ASSETS		
Unrestricted	1,066,397	1,077,122
Temporarily restricted	<u>130,662</u>	<u>128,946</u>
Total net assets	<u>1,197,059</u>	<u>1,206,068</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,344,830</u>	<u>\$1,364,799</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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support			
Government grants	\$ 26,972	\$ -	\$ 26,972
United Performing Arts Fund	139,224	9,596	148,820
Donations	185,264	4,000	189,264
Foundation grants	68,500	-	68,500
Fund-raising events	<u>39,348</u>	<u>-</u>	<u>39,348</u>
 Total public support	 <u>459,308</u>	 <u>13,596</u>	 <u>472,904</u>
Performance and other revenue			
Ticket sales and contract income	283,476	-	283,476
Theatre rental	26,104	-	26,104
Interest income	196	-	196
Education	18,678	-	18,678
Other revenue	<u>25,149</u>	<u>-</u>	<u>25,149</u>
 Total performance and other revenue	 353,603	 -	 353,603
Released from restrictions	<u>11,880</u>	<u>(11,880)</u>	<u>-</u>
 Total public support and revenue	 <u>824,791</u>	 <u>1,716</u>	 <u>826,507</u>
EXPENSES			
Production and education	654,943	-	654,943
Operating	125,738	-	125,738
Fundraising	<u>54,835</u>	<u>-</u>	<u>54,835</u>
 Total expenses	 <u>835,516</u>	 <u>-</u>	 <u>835,516</u>
 Changes in net assets	 (10,725)	 1,716	 (9,009)
NET ASSETS, beginning of year	<u>1,077,122</u>	<u>128,946</u>	<u>1,206,068</u>
NET ASSETS, end of year	<u>\$ 1,066,397</u>	<u>\$ 130,662</u>	<u>\$ 1,197,059</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support			
Government grants	\$ 20,437	\$ -	\$ 20,437
United Performing Arts Fund	148,295	10,000	158,295
Donations	182,937	-	182,937
Foundation grants	54,500	-	54,500
Fund-raising events	<u>29,579</u>	<u>-</u>	<u>29,579</u>
 Total public support	 <u>435,748</u>	 <u>10,000</u>	 <u>445,748</u>
Performance and other revenue			
Ticket sales and contract income	278,478	-	278,478
Theatre rental	25,939	-	25,939
Interest income	208	-	208
Education	15,994	-	15,994
Other revenue	<u>28,161</u>	<u>-</u>	<u>28,161</u>
 Total performance and other revenue	 348,780	 -	 348,780
Released from restrictions	<u>13,101</u>	<u>(13,101)</u>	<u>-</u>
 Total public support and revenue	 <u>797,629</u>	 <u>(3,101)</u>	 <u>794,528</u>
EXPENSES			
Production and education	622,087	-	622,087
Operating	117,284	-	117,284
Fundraising	<u>55,588</u>	<u>-</u>	<u>55,588</u>
 Total expenses	 <u>794,959</u>	 <u>-</u>	 <u>794,959</u>
 Changes in net assets	 2,670	 (3,101)	 (431)
NET ASSETS, beginning of year	<u>1,074,452</u>	<u>132,047</u>	<u>1,206,499</u>
NET ASSETS, end of year	<u>\$ 1,077,122</u>	<u>\$ 128,946</u>	<u>\$ 1,206,068</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (9,009)	\$ (431)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	34,340	34,076
(Increase) decrease in grants receivable	(10,422)	-
(Increase) decrease in pledges receivables	(5,313)	200
(Increase) decrease in prepaid expenses	(809)	(6,018)
Increase (decrease) in accounts payable	(2,391)	(1,086)
Increase (decrease) in deferred revenue	<u>(8,569)</u>	<u>21,522</u>
 Total adjustments	 <u>6,836</u>	 <u>48,694</u>
 Net cash provided by (used in) operating activities	 (2,173)	 48,263
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in restricted – equity bond	(7)	(895)
Purchase of property and equipment	<u>(12,864)</u>	<u>(3,172)</u>
 Net cash used in investing activities	 <u>(12,871)</u>	 <u>(4,067)</u>
 Net increase (decrease) in cash and cash equivalents	 (15,044)	 44,196
 Cash and cash equivalents at beginning of year	 <u>369,570</u>	 <u>325,374</u>
 Cash and cash equivalents at end of year	 <u>\$ 354,526</u>	 <u>\$ 369,570</u>
 Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	<u>\$ -</u>	<u>\$ -</u>
 In-kind contributions received	 <u>\$ -</u>	 <u>\$ -</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, 2018

	Production and <u>Education</u>	<u>Operating</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Advertising and marketing	\$ 49,158	\$ -	\$ -	\$ 49,158
Depreciation and amortization	33,651	689	-	34,340
Education and outreach	9,808	-	-	9,808
Fundraising	-	-	11,017	11,017
Insurance	7,828	2,749	1,226	11,803
Interest	-	-	-	-
Office and supplies	24,815	4,069	-	28,884
Outside services	62,852	-	-	62,852
Payroll salaries and wages	208,721	73,300	32,680	314,701
Payroll taxes	22,940	8,056	3,592	34,588
Payroll employee benefits	27,626	9,702	4,326	41,654
Postage	4,387	4,387	462	9,236
Production material	43,687	-	-	43,687
Professional fees	3,077	3,856	482	7,415
Rent	85,096	13,596	-	98,692
Royalties	17,983	-	-	17,983
Sales taxes	16,008	-	-	16,008
Service charges	21,560	1,135	-	22,695
Telephone and utilities	<u>15,746</u>	<u>4,199</u>	<u>1,050</u>	<u>20,995</u>
Total expenses	<u>\$ 654,943</u>	<u>\$125,738</u>	<u>\$ 54,835</u>	<u>\$ 835,516</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, 2017

	Production and <u>Education</u>	<u>Operating</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Advertising and marketing	\$ 45,047	\$ -	\$ -	\$ 45,047
Depreciation and amortization	33,387	689	-	34,076
Education and outreach	11,874	-	-	11,874
Fundraising	-	-	10,807	10,807
Insurance	7,720	2,695	1,302	11,717
Interest	-	-	-	-
Office and supplies	25,345	3,998	-	29,343
Outside services	58,180	-	-	58,180
Payroll salaries and wages	195,069	68,085	32,915	296,069
Payroll taxes	23,131	8,073	3,903	35,107
Payroll employee benefits	28,337	9,890	4,781	43,008
Postage	4,273	4,273	450	8,996
Production material	37,705	-	-	37,705
Professional fees	2,598	3,607	438	6,643
Rent	76,864	10,768	-	87,632
Royalties	18,247	-	-	18,247
Sales taxes	15,868	-	-	15,868
Service charges	23,575	1,241	-	24,816
Telephone and utilities	<u>14,867</u>	<u>3,965</u>	<u>992</u>	<u>19,824</u>
Total expenses	<u>\$ 622,087</u>	<u>\$117,284</u>	<u>\$ 55,588</u>	<u>\$ 794,959</u>

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

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017 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, 2018 AND 2017

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 to general operations as incurred. Advertising costs totaled \$49,158 and \$45,047 for the years ended June 30, 2018 and 2017, respectively.

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, 2018 and 2017. The Theatre has not incurred any interest or penalties for income taxes for the years ended June 30, 2018 and 2017.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017

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 December 17, 2018, 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 \$14,934 and \$14,927 as of June 30, 2018 and 2017, respectively.

C – GRANTS RECEIVABLE

Grants receivable consists of the following amounts as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program activities	\$ <u>10,422</u>	\$ <u>-</u>

Management has determined that the contributions receivable are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017

D – PLEDGES RECEIVABLE - 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, 2018 and 2017 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.

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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Receivable	\$ 6,113	\$ 800
Less allowance for uncollectible	<u>-</u>	<u>-</u>
Net receivable	<u>\$ 6,113</u>	<u>\$ 800</u>

Future amounts due, at discounted value:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 6,113	\$ 800
One to five years	-	-
More than five years	<u>-</u>	<u>-</u>
Total	<u>\$ 6,113</u>	<u>\$ 800</u>

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017

E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	2018	2017
Capital equipment and improvements	\$ 95,714	\$ 91,714
UPAF – timing restriction	9,596	10,000
Education	25,352	27,232
Total	\$ 130,662	\$ 128,946

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. In addition to the base monthly rent, the Theatre pays for additional rehearsal space as used and an allocation of common area maintenance fees. Future minimum lease payments are as follows:

2019	\$ 65,255
2020	67,208
2021	69,285
2022	71,393
2023	73,501
2024	75,702
2025	77,934
2026	80,259
2027	20,212

Rent expense was \$88,692 and \$87,632 for 2018 and 2017, respectively.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017

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, 2018 and 2017.

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 2018 and 2017 were \$27,050 and \$23,662, 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 has deposits in financial institutions, which, at times, may exceed federally insured limits. The Theatre has not experienced any losses with these accounts and management believes the Theatre is not exposed to any significant credit risk. Amounts on deposit in excess of federally insured limits at June 30, 2018 were \$118,264.

NEXT ACT THEATRE, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018 AND 2017

J – DONATED FACILITIES, SERVICES AND PERSONAL PROPERTY

The Theatre receives various types of contributed goods and services support, including, professional services and auction items. Donated facilities are recognized at their fair value. Donated services are reported in the financial statements for voluntary donations of professional services when those services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically would be purchased if not provided by donation.

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Theatre's programs. No amounts have been recognized in the statements of activities because the criteria for recognition under U.S. GAAP have not been satisfied.

The Theatre received donated personal property which the Theatre used as auction and raffle items and supplies for the charity events held during the years ended June 30, 2018 and 2017. Revenue received from the sale of the auction and raffle items is reflected in the statements of activities and no amounts have been reflected for the donation of supplies for the charity events in the statements of activities.

K – RECONCILIATION OF ACTIVITIES TO OPERATIONS

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

	<u>2018</u>	<u>2017</u>
Change in net assets	\$ (9,009)	\$ (431)
Depreciation and amortization	<u>34,340</u>	<u>34,076</u>
Net operating surplus	<u>\$ 25,331</u>	<u>\$ 33,645</u>