

THE NEW CONSERVATORY
THEATRE CENTER

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

AUGUST 31, 2020 AND 2019

THE NEW CONSERVATORY
THEATRE CENTER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The New Conservatory Theatre Center

We audited the accompanying financial statements of The New Conservatory Theatre Center of San Francisco, a nonprofit California corporation (the "Organization"), which comprise the statements of financial position as of August 31, 2020 and 2019, and 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 the 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 the 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 the 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 auditors' 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 the Organization as of August 31, 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2019 financial statements, and our report dated January 12, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Buckley Patchen

Walnut Creek, CA
January 22, 2021

THE NEW CONSERVATORY THEATRE CENTER
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 816,790	\$ 407,660
Accounts receivable, net (Note 7)	222,614	64,325
Prepaid expenses	24,728	31,199
Total Current Assets	1,064,132	503,184
Non-Current Assets:		
Investments (Note 5)	552,795	564,280
Agency endowment (Note 6)	43,363	42,100
Fixed assets, net	242,518	284,591
Total Non-Current Assets	838,676	890,971
Total Assets	\$ 1,902,808	\$ 1,394,155
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	\$ 24,421	\$ 25,668
Deferred revenue	51,508	151,430
Total Current Liabilities	75,929	177,098
Non-Current Liabilities:		
EID Loan (Note 15)	90,000	-
Total Non-Current Liabilities	90,000	-
Net Assets:		
Without Donor Restrictions	1,548,379	1,183,934
With Donor Restrictions		
Subject to time restrictions	180,000	24,623
Perpetual in nature (Note 12)	8,500	8,500
Total Net Assets	1,736,879	1,217,057
Total Liabilities and Net Assets	\$ 1,902,808	\$ 1,394,155

The accompanying notes are an integral part of these financial statements
See Independent Auditor's Report.

THE NEW CONSERVATORY THEATRE CENTER
 STATEMENTS OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2020
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2019

	2020			2019 Total
	Without Restrictions	With Restrictions	Total	
Revenue:				
Ticket sales	\$ 275,383	\$ -	\$ 275,383	\$ 451,597
Concession sales	31,333	-	31,333	56,463
Tuition	112,937	-	112,937	147,390
Total Revenue	<u>419,653</u>	<u>-</u>	<u>419,653</u>	<u>655,450</u>
Support:				
Contributions	1,002,357	265,000	1,267,357	915,534
Special events	5,827	-	5,827	10,131
Paycheck Protection Program (Note 14)	211,600	-	211,600	-
Fees and grants from governmental agencies	165,419	-	165,419	182,646
Total Support	<u>1,385,203</u>	<u>265,000</u>	<u>1,650,203</u>	<u>1,108,311</u>
Other Income:				
Rental income	7,200	-	7,200	7,200
Gain/(Loss) on investments	42,119	-	42,119	(12,524)
Other Income	1,386	-	1,386	188
In-Kind	-	-	-	5,510
Interest and dividend income	10,939	-	10,939	30,693
Total Other Income	<u>61,644</u>	<u>-</u>	<u>61,644</u>	<u>31,467</u>
Net assets released from restrictions	109,623	(109,623)	-	-
Total Revenue and Support	<u>1,976,123</u>	<u>155,377</u>	<u>2,131,500</u>	<u>1,795,228</u>
Expenses:				
Program services	1,362,792	-	1,362,792	1,580,951
Fundraising and development	198,717	-	198,717	198,621
Management and general	50,169	-	50,169	55,621
Total Expenses	<u>1,611,678</u>	<u>-</u>	<u>1,611,678</u>	<u>1,835,193</u>
Change in net assets	<u>364,445</u>	<u>155,377</u>	<u>519,822</u>	<u>(39,965)</u>
Net Assets - Beginning of Year	<u>1,183,934</u>	<u>33,123</u>	<u>1,217,057</u>	<u>1,257,022</u>
Net Assets - End of Year	<u>\$ 1,548,379</u>	<u>\$ 188,500</u>	<u>\$ 1,736,879</u>	<u>\$ 1,217,057</u>

The accompanying notes are an integral part of these financial statements
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THE NEW CONSERVATORY THEATRE CENTER
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2019

	Program Services							Fundraising and Development	Management and General	2020 Total	2019 Total
	Children's Theatre and Conservatory	Pride Season	Youth Aware	New Play Development	Total Program Services						
Salaries	\$ 209,063	\$ 340,663	\$ 102,373	\$ 65,262	\$ 717,361	\$ 164,901	\$ 36,425	\$ 918,687	\$ 1,009,790		
Payroll taxes and benefits	21,862	35,624	10,705	6,825	75,017	17,244	3,809	96,070	106,057		
Occupancy	19,970	39,189	42,395	9,778	111,332	4,919	4,898	121,149	111,198		
Contracted services	5,763	78,720	12,165	2,794	99,442	1,803	1,000	102,245	107,050		
Production	30	45,250	387	-	45,667	-	-	45,667	53,731		
Supplies	1,051	16,599	835	417	18,902	209	209	19,320	9,505		
Travel and Housing	-	16,437	-	339	16,776	-	-	16,776	20,194		
Insurance	20,164	8,401	9,219	2,078	39,862	1,023	-	40,885	44,584		
Scholarships	1,275	-	-	-	1,275	-	-	1,275	12,375		
Printing and promotion	3,698	7,397	3,698	1,849	16,642	925	925	18,492	44,270		
Telephone	1,514	3,328	1,514	757	7,113	379	377	7,869	9,457		
Depreciation	6,311	12,622	3,366	11,360	33,658	6,311	2,104	42,073	41,044		
Postage and delivery	120	3,029	-	-	3,149	-	-	3,149	5,947		
Royalties	-	33,442	-	3,716	37,158	-	-	37,158	55,164		
Advertising	581	55,169	1,161	581	57,492	581	-	58,073	80,680		
Concessions	1,121	14,416	481	-	16,018	-	-	16,018	28,221		
Vehicle storage and maintenance	-	28,593	1,986	-	1,986	-	-	1,986	2,009		
Bank fees	1,586	3,747	1,586	-	31,765	-	-	31,765	46,550		
Dues and subscriptions	-	-	-	-	3,747	-	-	3,747	3,557		
Payroll processing	1,688	3,373	1,688	844	7,593	422	422	8,437	8,487		
Staff development	-	17,931	-	-	17,931	-	-	17,931	14,045		
Other	-	2,906	-	-	2,906	-	-	2,906	12,891		
Special Events/Fundraising expense	-	-	-	-	-	-	-	-	8,387		
Total Expenses	\$ 295,797	\$ 766,836	\$ 193,559	\$ 106,599	\$ 1,362,792	\$ 198,717	\$ 50,169	\$ 1,611,678	\$ 1,835,193		

The accompanying notes are an integral part of these financial statements
See Independent Auditor's Report.

THE NEW CONSERVATORY THEATRE CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 519,822	\$ (39,965)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	42,073	41,044
(Gain)/Loss on investments	(42,119)	12,524
(Increase) decrease in operating assets:		
Funds receivable	(158,289)	10,367
Prepaid expenses	6,471	27,110
Fixed assets	-	(45,012)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,247)	1,138
Deferred revenue	(99,922)	19,609
EID Loan	90,000	-
Net Cash Provided By Operating Activities	<u>356,789</u>	<u>26,815</u>
Cash Flows From Investing Activities:		
Investments purchases	(82,704)	(185,493)
Investment sales	<u>135,045</u>	<u>196,119</u>
Net Cash Provided by Investing Activities	52,341	10,626
Net Increase in Cash and Cash Equivalents	409,130	37,441
Beginning Cash and Cash Equivalents	<u>407,660</u>	<u>370,219</u>
Ending Cash and Cash Equivalents	<u>\$ 816,790</u>	<u>\$ 407,660</u>
Supplemental Cash Flow Disclosures		
Cash Paid for Interest	<u>\$ -</u>	<u>\$ -</u>
Cash Paid for Income Taxes	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements
See Independent Auditor's Report.

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 1 Organization:

The New Conservatory Theatre Center (the "Organization") is a California nonprofit Organization involved in the areas of theatre, arts and education. The Organization is exempt from federal income tax as an Organization described in Section 501(c)(3) of the Internal Revenue Code.

Programs - The basic programs of the Organization are:

(a) Children's Theatre and Conservatory

Provides family theatre entertainment and both in-house and satellite theatre arts classes for youth ages 7–17 and adults.

(b) *YouthAware* In-house and Touring Theatre-In-Education Programs for grades K-12.

Let's Get Galactic – HIV prevention and health choices tour.

Real Talk – HIV Prevention and Health Choices Tours.

Outspoken – A new play from the voices of today's youth that explores questions of cultural, political, economic, personal identity and creative distinctions within their community.

(c) Pride Season

Year-round subscription series, special events and co-production theatre program for adult audiences.

(d) Other Stage Productions

Emerging Artist Residencies and New Play Development – a program nurturing the development of individual artists and new plays for youth, as well as queer and allied audiences

Special Events – Special performance and event benefits for audiences of all ages.

Note 2 Summary of Significant Accounting Policies:

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 liabilities.

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 2 Summary of Significant Accounting Policies (continued):

Financial statement presentation

Net Assets

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 Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor-imposed restrictions.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or to other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-profit Entities (Topic 958) – Presentation of Financial Statements of Not-for Profit- Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expense and investment return. We have implemented ASU 2016-14 and have adjusted presentation in these not consolidated financial statements accordingly.

Tax-Exempt Status

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, a provision for income taxes has not been provided. The Organization is subject to routine audits from taxing jurisdictions; however, currently, there are no audits in progress. The Organization is no longer subject to income tax examination for the tax years prior to 2013. The Organization has no uncertain tax positions at August 31, 2020 and 2019.

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 2 Summary of Significant Accounting Policies (continued):

Contributions

Contributions, including unconditional promises to give, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Furniture and Equipment

The Organization follows the practice of capitalizing all expenditures for furniture, fixtures and equipment in excess of \$2,500 and is being depreciated using a straight-line depreciation method over its useful life. Additions to the fixed assets are recorded at cost or at estimated fair value at date of gift if donated.

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

In-Kind Contributions

The Organization records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 2 Summary of Significant Accounting Policies (continued):

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of donors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Reclassifications

Certain amounts have been reclassified to conform to current year's presentation. These reclassifications have no impact on changes in net assets.

Note 3 Cash and Cash Equivalents:

The cash and cash equivalent balances (level 1 measurements under the fair value framework discussed in Note 5) consisted of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Checking accounts	\$ 545,805	\$ 169,713
Savings accounts	93,300	237,947
WF stock account	43,865	-
Schwab Money Market account	133,820	-
Total	<u>\$ 816,790</u>	<u>\$ 407,660</u>

Note 4 Liquidity and Availability:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalent	\$ 816,790	\$ 407,660
Accounts receivable	222,614	64,325
Prepaid expenses and other assets	24,728	31,199
Net assets with donor restrictions	<u>(188,500)</u>	<u>(33,123)</u>
Total	<u>\$ 875,632</u>	<u>\$ 470,061</u>

Net assets with donor restrictions are not available for general expenditures.

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 5 Investments and Fair Value Measurements:

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that provides the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
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Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
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If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Valuation methodology is unobservable and significant to the fair value measurement.
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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value framework, the Organization's assets at fair value as of August 31, 2020 and 2019:

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 5 Investments and Fair Value Measurements (continued):

	Year Ended August 31, 2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Agency Endowment	\$ -	\$ 43,363	\$ -	\$ 43,363
Equity Investments	67,381	-	-	67,381
Mutual Funds	485,414	-	-	485,414
	<u>\$ 552,795</u>	<u>\$ 43,363</u>	<u>\$ -</u>	<u>\$ 596,158</u>

	Year Ended August 31, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment	\$ -	\$ 42,100	\$ -	\$ 42,100
Equity Investments	59,865	-	-	59,865
Mutual Funds	504,415	-	-	504,415
	<u>\$ 564,280</u>	<u>\$ 42,100</u>	<u>\$ -</u>	<u>\$ 606,380</u>

Methodology Used to Determine Fair Value of Investments

Money Market and Mutual Funds— Assets are valued at market value.

Agency Endowment - Fair Value as determined by Horizons Foundation quarterly reports.

The Organization believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 6 Agency Endowment:

On January 24, 2014, The Organization entered into an agreement (the "Agreement") to establish an endowment fund with the Horizon Foundation (the "Foundation"). The Agreement provides that an endowment fund will be established for the exclusive benefit of the Organization with an initial contribution of \$25,000. In establishing the fund, the Organization relinquishes power over investment of the Fund and the Fund shall be the exclusive property of the Foundation. The Agreement provides for a 5% annual distribution, 4% to the Organization and 1% to the Foundation as a fee.

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 6 Agency Endowment (continued):

This Agreement is subject to the Foundation's authority to vary the terms of the gift. As stated in the Foundation's governing documents, the Board of Directors of the Foundation shall have the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board of Directors (without the necessity of the approval of any other party) such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.

The endowed fund balance consists of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beginning Balance	\$ 42,100	\$ 40,974
Contributions	-	-
Income and Unrealized gain/(loss)	2,766	2,554
Distributions	<u>(1,503)</u>	<u>(1,428)</u>
Ending Balance	<u>\$ 43,363</u>	<u>\$ 42,100</u>

Of these amounts, \$8,500 is donor restricted perpetual in nature for the years ended August 31, 2020 and 2019.

Note 7 Accounts Receivable:

Accounts Receivable consists of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
The William & Flora Hewlett Foundation	\$ 180,000	\$ -
David Beery & Norman Abramson	20,000	30,000
City Hotel Tax Fund	12,014	12,014
SF Arts Commission	-	12,500
Miscellaneous	<u>10,600</u>	<u>9,811</u>
Total Accounts Receivable	<u>\$ 222,614</u>	<u>\$ 64,325</u>

THE NEW CONSERVATORY THEATRE CENTER
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 8 Concentration of Credit Risk:

The Organization maintains cash and investment balances at various financial institutions. Cash accounts at each bank are insured by the FDIC for up to \$250,000. Throughout the year, the cash balances exceeded the FDIC insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

On March 11, 2020, the World Health Organization characterized coronavirus (COVID-19) as a pandemic, and on March 13, the President of the United States declared a national emergency relating to the disease. In addition to the President's declaration, state and local authorities have recommended social distancing and have imposed quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures are designed to protect the overall public health, however are expected to have material adverse impacts on domestic and foreign economies and may result in the United States entering a period of recession.

As a result of COVID-19, there has been heightened market risk and volatility associated with the pandemic, and this could materially affect investment account balances and the amounts reported in the statements of net assets and the statements of activities and changes in net assets, as mentioned above. Because of the uncertainty of the markets during this time, the Organization's management is unable to estimate the total impact the pandemic will have.

Note 9 Prepaid Expenses:

Prepaid expenses consisted of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Prepaid royalties	\$ 8,450	\$ 14,892
Prepaid insurance	10,637	10,666
Prepaid rent	4,991	4,991
Other	650	650
	<hr/>	<hr/>
Total	<u>\$ 24,728</u>	<u>\$ 31,199</u>

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 10 Fixed Assets:

Fixed assets consisted of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Furniture, fixtures and equipment	\$ 357,021	\$ 357,021
Improvements	339,982	339,982
Vehicles	<u>69,193</u>	<u>69,193</u>
Total Fixed Assets, Gross	766,196	766,196
Less: Accumulated Depreciation	<u>(523,678)</u>	<u>(481,605)</u>
Total Fixed Assets, Net	<u>\$ 242,518</u>	<u>\$ 284,591</u>

Depreciation expense totaled \$42,073 and \$41,044 for the years ended August 31, 2020 and 2019, respectively.

Note 11 Deferred Revenue (Pride Season):

The Pride Season is a series of shows for adult audiences. Generally, the pride season runs from September to June. The Organization has various Pride Season ticket plans available for purchase. Season tickets purchases must be paid in advance. For the year ended August 31, 2020 and 2019, the Organization deferred \$51,508 and \$151,430 in payments received in connection with the Pride Season ticket sales.

Note 12 Net Assets With Donor Restrictions:

The following net assets are subject to time restrictions for the years ended August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Hewlett	<u>\$ 180,000</u>	<u>\$ 24,623</u>
Total	<u>\$ 180,000</u>	<u>\$ 24,623</u>

Donor restricted net assets perpetual in nature for the years ended August 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
James Irvine	<u>\$ 8,500</u>	<u>\$ 8,500</u>
Total	<u>\$ 8,500</u>	<u>\$ 8,500</u>

THE NEW CONSERVATORY THEATRE CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

Note 12 Net Assets With Donor Restrictions (continued):

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended August 31, 2020 and 2019:

<u>Time restrictions</u>	<u>2020</u>	<u>2019</u>
Hewlett	\$ 84,623	\$ 72,685
Total	<u>\$ 84,623</u>	<u>\$ 72,685</u>
<u>Purpose restrictions</u>	<u>2020</u>	<u>2019</u>
Fleishhacker	\$ 25,000	\$ 10,000
Total	<u>\$ 25,000</u>	<u>\$ 10,000</u>

Note 13 Lease Commitments:

The Organization occupies its facility under an operating master lease from the City of San Francisco, which expires on September 30, 2023. The Organization has a five-year option which it may exercise extending the lease term to September 30, 2028. Minimum lease payments under this lease are as follows:

Fiscal Year 2021	95,796
Fiscal Year 2022	95,796
Fiscal Year 2023	95,796
Fiscal Year 2024	<u>7,983</u>
Total	<u>\$ 295,371</u>

Rent expense in connection with this lease and other operating leases totaled \$121,149 and \$111,198 for the years ended August 31, 2020 and 2019.

The Organization also rents portions of the facility to others for use as office space and photo shoots.

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Note 14 Paycheck Protection Program:

On May 6, 2020 the Organization received loan proceeds of \$211,600 from a promissory note issued by Northeast Bank, under the Paycheck Protection Program ("PPP") which was established under the CARES Act and is administered by the U.S. Small Business Administration. The term on the loan is two years and the annual interest rate is 1%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization expects to meet the PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven, and accordingly has accounted for the PPP loan as a conditional contribution. The PPP forgivable loan is considered to be conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Proceeds received under the PPP are recognized as revenue when the Institute has incurred expenditures in compliance with the promissory note provisions. For the year ended August 31, 2020, the Organization recognized \$211,600 in Paycheck Protection Program grant revenue based on qualifying expenditures under the PPP program that are expected to be forgiven.

Forgiveness of the loan is not assured. Although the Organization believes the occurrence of qualifying expenditures will result in such forgiveness, the expenditures are subject to review and/or audit under applicable administrative provisions governing the Paycheck Protection Program.

Note 15 Economic Injury Disaster Loan (EIDL):

On June 14, 2020, the Organization received loan proceeds of \$90,000 from a loan authorization and agreement authorized by Small Business Administration (SBA), under the Economic Injury Disaster Loan ("EIDL"), which is designed to provide economic relief to businesses that are currently experiencing a temporary loss of revenue due to coronavirus (COVID-19). The term on the loan is thirty years and the annual interest rate is 2.75%. Payments of principal and interest are deferred for the first twelve months of the loan.

Note 16 Subsequent Events:

Subsequent events were evaluated through January 22, 2021, which is the date the financial statements were available to be issued. Management has not identified any subsequent events that would require an adjustment to the financial statements or disclosure as required under generally accepted accounting principles.⁸⁸