

Egyptian Theatre

Financial Statements

Year ended June 30, 2019



WIPFLI^{LLP}
CPAs and Consultants



Independent Auditor's Report

Board of Directors
Egyptian Theatre
DeKalb, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Egyptian Theatre (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statement of activities, statement of functional expenses and cash flows for the year 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; 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. Those standards require that we plan and perform the audit 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 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 Egyptian Theatre as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

Rockford, Illinois
March 11, 2020

Egyptian Theatre
Statement of Financial Position
June 30, 2019

Assets

Cash and cash equivalents	\$ 432,459
Beneficial interest in trusts, at fair value	165,641
Property and equipment, net	1,465,233

Total assets	\$ 2,063,333
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Liabilities and Net Assets

Liabilities:

Accounts payable	\$ 4,557
Accrued liabilities	19,922
Deferred ticket revenue	45,837
Deferred revenue	25,000

Total liabilities	95,316
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Net Assets:

Net assets without donor restrictions	1,609,035
Net assets with donor restrictions	358,982

Total net assets	1,968,017
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Total liabilities and net assets	\$ 2,063,333
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See accompanying notes to financial statements.

Egyptian Theatre
Statement of Activities
For the Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Support and revenue:			
Contributions	\$ 76,030	\$ 866,220	\$ 942,250
Donations - in kind	92,630		92,630
Grants	19,600		19,600
Theatre income	659,873		659,873
Rental income	57,824		57,824
Membership revenue	10,050		10,050
Fundraising, net	34,160		34,160
Merchandise, net	4,351		4,351
Investment income, net	16,446	(3,214)	13,232
Miscellaneous	8,691		8,691
Net assets released from restrictions	632,178	(632,178)	0
Total revenue and support	1,611,833	230,828	1,842,661
Expenses:			
Program services	619,336		619,336
Management and general	378,268		378,268
Fundraising	72,718		72,718
Total expenses	1,070,322		1,070,322
Change in net assets	541,511	230,828	772,339
Net asset, beginning of year	1,067,524	128,154	1,195,678
Net assets, end of year	\$ 1,609,035	\$ 358,982	\$ 1,968,017

See accompanying notes to financial statements.

Egyptian Theatre
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash Flows from Operating Activities

Change in net assets	\$ 772,339
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	111,403
Unrealized gain on beneficial interest in trusts	(4)
Realized gain on beneficial interest in trusts	(8,652)
Reinvested investment income, net	(4,563)
Contribution to beneficial interest in trust	(250,000)
Distribution from beneficial interest in trust	284,360
Change in assets and liabilities:	
Accounts payable	2,562
Accrued liabilities	329
Deferred ticket revenue	19,594
Deferred revenue	(25,000)

Net cash flows from operating activities	902,368
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Cash Flows from Investing Activities

Purchases of property and equipment	(567,789)
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Net cash flows from investing activities	(567,789)
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Net change in cash and cash equivalents	334,579
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Net Cash and Cash Equivalents

Beginning	97,880
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Ending	\$ 432,459
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See accompanying notes to financial statements.

Egyptian Theatre

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services	Management and General	Fund Raising	Totals
Production and event	\$ 366,285			\$ 366,285
Ticket system expense	29,956			29,956
Merchandise and concessions	18,407			18,407
Supplies	2,872	\$ 2,873		5,745
Total direct show related costs	417,520	2,873		420,393
Advertising	130,302		\$ 14,478	144,780
Bank charges		22,768		22,768
Dues and subscriptions		1,981		1,981
Grant expenses		3,650		3,650
Insurance	21,005	1,106		22,111
Legal and accounting		18,225		18,225
Medical reimbursements		6,262		6,262
Miscellaneous	168	169		337
Office expense	2,843	2,843		5,686
Payroll taxes		12,199	4,067	16,266
Postage	410	246	164	820
Repairs and maintenance	2,215	8,861		11,076
Repairs and maintenance - in kind		28,159		28,159
Salaries and wages		155,450	51,817	207,267
Sales tax	5,705			5,705
Telephone and internet		6,457	717	7,174
Training and seminars		5,900	1,475	7,375
Utilities	5,747	22,987		28,734
Waste removal		150		150
Expenses before depreciation	585,915	300,286	72,718	958,919
Depreciation	33,421	77,982		111,403
Total	\$ 619,336	\$ 378,268	\$ 72,718	\$ 1,070,322

See accompanying notes to financial statements.

Egyptian Theatre

Notes to Financial Statements

Note 1: Nature of Business and Significant Accounting Policies

Nature of business

Egyptian Theatre is a not-for-profit corporation located in DeKalb, Illinois. Egyptian Theatre was created to share and protect the historical integrity of the theatre as a regional arts center for entertainment and community involvement. The historic Egyptian Theatre is recognized as a center for the arts and entertainment in the region, enriching the community culturally and economically. The Theatre is a beloved gathering place and source of pride, providing programming and excitement now and for future generations.

Basis of accounting:

The financial statements are on the accrual basis of accounting in which revenue is recognized when earned and expenses are recognized when incurred.

Cash and cash equivalents

For purposes of reporting the statements of cash flows, the Theatre includes all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents on the accompanying statement of financial position. At June 30, 2019 the bank balance of the Theatre's deposits in checking and savings account at one institution exceeded the amount covered by Federal Depository Insurance by approximately \$157,200. In the event of a bank failure, the Theatre's uninsured deposits might not be recovered.

Property and equipment

Property and equipment are carried at cost. Expenditures for maintenance, repairs and improvements which do not significantly extend the useful lives of the assets are charged to operations as incurred. The fair value of donated property and equipment is capitalized. Depreciation is computed over the estimated useful lives of the assets under the straight-line method. The estimated useful lives of the property and equipment are as follows:

	<u>Years</u>
Buildings	39
Building improvements	7 - 15
Equipment	5 -15

Net assets are presented as follows:

Net assets are classified into one of the following two categories depending on the presence or absence of donor-imposed restrictions:

Egyptian Theatre

Notes to Financial Statements

Note 1: Nature of Business and Significant Accounting Policies (Continued)

Net assets without donor restrictions - Net assets are reflective of revenues and expenses associated with the principal programs and activities of the Theatre and are not subject to donor-imposed stipulations. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. Board designated funds are established annually by the Board of Directors and represent designated amounts from net assets without donor restrictions which are to be used for future improvements, programs, emergency reserves, and other unanticipated needs of the Theatre.

Net assets with donor restrictions - Net assets with donor or certain grantor imposed restrictions. Some donor-imposed restrictions or stipulations are temporary in nature and will be met either by actions of the Theatre and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity by the Theatre. Generally, the donors of these assets permit the Theatre to use all or part of the income earned on related investments for general or specific purposes.

Revenues

Earned income consists of income from ticket sales, facility rentals, concessions, and other miscellaneous sources. Ticket sales are recorded as income or deferred income, dependent upon the performance in which they relate. Ticket sales are initially recognized as deferred revenues and recognized as income as each show is performed.

Recognition of revenue and support with donor restrictions

Contributions received are recorded as without donor restrictions or with donor restrictions support depending on the existence or nature of any donor restrictions. Contributions with time and purpose restrictions are reported as temporarily restricted support and reclassified to unrestricted net assets upon expiration or fulfillment of the restrictions. However, contributions that are with donor restrictions are reported as increases in without donor restriction net assets if the restrictions expire in the year in which the contributions are recognized.

Contribution recognition

Donated services and materials are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Theatre. A substantial number of volunteers have made significant contributions of their time to the Theatre's program and supporting services. The value of this contributed time is not reflected in these financial statements because the criteria for recognition have not been satisfied. Contributed goods and services from professionals are recorded when utilized and are reflected in the financial statements at their estimated fair value. During the year ending June 30, 2019, contributed services and materials totaled \$92,630.

Egyptian Theatre

Notes to Financial Statements

Note 1: Nature of Business and Significant Accounting Policies (Continued)

Management use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Functional allocation of expenses

The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income taxes

The Theatre qualifies for tax exempt status under Section 501(c)(3) of the Internal Revenue Code as an theatre organized as not-for-profit.

The Theatre accounts for income taxes in accordance with FASB ASC 740 *Income Taxes*. FASB ASC 740 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements and requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Theatre recorded no liabilities for uncertain tax positions or unrecognized tax benefits. The Theatre's tax years that remain open and subject to possible examination by federal and state of Illinois jurisdictions included tax years 2016 through 2018.

Accounting standards update

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic organizations for annual periods beginning after December 15, 2018. Management is evaluating what impact this new standard will have on its financial statements.

Egyptian Theatre

Notes to Financial Statements

Note 1: Nature of Business and Significant Accounting Policies (Continued)

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting on leasing transactions. ASU 2016-02 will require lessees to recognize right of use assets and lease obligations for operating and finance leases under terms greater than 12 months. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. ASU 2016-02 must be applied modified retrospectively. Management is evaluating what impact this new standard will have on its financial statements.

Note 2: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, comprise the following as of June 30, 2019:

Financial assets, at year-end*	\$ 598,100
Less those unavailable for general expenditures	
<u>Contractual or donor-imposed restrictions:</u>	
Beneficial interest in trust	(103,120)
<u>Unavailable assets released within one year:</u>	
Beneficial interest in trust	4,330
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Financial assets available to meet cash needs for general expenditures within one year	<hr/> <hr/> \$ 499,310

* Total assets, less nonfinancial assets

The Theatre's beneficial interest in assets held by DeKalb County Community Foundation totaling \$165,641 as of June 30, 2019. Of this balance, \$103,120 represents the Theatre's restricted investments. The Theatre shall receive an annual distribution as described further in note 3. Fiscal year 2019's distribution was \$4,330. Prior years amount has been used in estimating the unavailable assets realized within one year.

The Theatre does not have a formal liquidity policy.

Note 3: Beneficial Interest in Endowment

Egyptian Theatre is an income beneficiary of an endowment held by DeKalb County Community Foundation. Under the endowment agreement, Egyptian Theatre is to receive a distribution from the Foundation annually a sum equal to a percentage ("the Spending Rate") of the Average Fair Market Value of the Fund net of all expenses and costs (including fees). The Average Fair Market Value shall be the average of the monthly value of the Fund calculated toward the end of each calendar year following the inception of the Fund. The grant distribution (Payout) from the fund shall be based on a three-year (or since inception if less than three years old) trailing average of the Average Fair Market Value amounts. The Foundation may at any time, and from time to time, change either the Spending Rate or the manner in which the Average Fair Market Value is determined, or both; and may adopt a different plan of distribution. The fair value of the principal of the endowment is accounted for as a with donor restriction net asset.

Egyptian Theatre

Notes to Financial Statements

Note 4: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. A three tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include *Level 1*, defined as observable inputs such as quoted market prices in active markets; *Level 2*, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and *Level 3*, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Theatre 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.

The following table sets forth by level, within the fair value hierarchy, the Theatre's assets at fair value as of June 30, 2019:

Description	Fair Value June 30, 2019	Level 1	Level 2	Level 3
Beneficial interests	\$165,641	\$0	\$0	\$165,641

Reconciliation of assets measured using Level 3 inputs as of June 30, 2019:

Description	June 30, 2018	Gains (losses)	Investment income and expenses, net	Gifts	Distributions	June 30, 2019
Investments held by Community Foundation	\$186,782	\$8,656	\$4,563	\$250,000	(\$284,360)	\$165,641

Note 5: Investment Income

Investment income consisted of the following for the year ended June 30, 2019:

Dividends and interest	\$	7,445
Bank interest		13
Realized gains		8,652
Unrealized gains		4
Investment fees		(2,882)
Investment income (loss), net	\$	13,232

Egyptian Theatre

Notes to Financial Statements

Note 6: Property and Equipment

Property and equipment consisted of the following for the year ended June 30, 2019:

Land	\$ 10,000
Building and improvements	1,755,885
Wurlitzer organ	75,000
Theatre seats	196,341
Theatre Equipment	568,928
Total property and equipment	2,606,154
Less accumulated depreciation	1,140,921
Property and equipment, net	\$ 1,465,233

Depreciation expense for the year totaled \$111,403 for the year ending June 30, 2019.

Note 7: Accrued Expenses

Accrued expenses consisted of the following for the year ended June 30, 2019:

Payroll and related	\$ 15,829
Sales tax	493
Medical reimbursement	3,600
Total	\$ 19,922

Note 8: Deposits

The Theatre collects revenues for shows in advance. These revenues are held as deposits until the future performance is performed. After performance the deposits for a particular show are transferred to recognized revenues. As of June 30, 2019 the Theatre was currently holding \$45,837 as deposits for future performances.

Note 9: Deferred Revenue

The Theatre received \$75,000 in 2018 from Northwestern Hospital. Northwestern Hospital committed \$25,000 over a three year period. In fiscal year 2019 \$25,000 was recognized into income.

Egyptian Theatre

Notes to Financial Statements

Note 9: Deferred Revenue (Continued)

Deferred revenue consisted of the following for the year ended June 30, 2019:

2020	\$	25,000
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Total	\$	25,000
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Note 10: Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30 consisted of the following:

Restricted contributions for specific purposes	\$	255,862
Beneficial interest in endowment		103,120
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Total net assets with donor restrictions	\$	358,982
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Note 11: Major Funding Source

The Theatre received approximately \$93,000 of support from the City of DeKalb in 2019. The Theatre received the monies through its TIF agreement with the city. Any future termination or failure of the TIF agreement to continue could result in a substantial loss of contributions.

On March 11, 2019 the Theatre entered into a final development incentive agreement with the City of DeKalb for the renovation of the Egyptian Theatre. The city shall provide \$2,500,000 payable through phases for the renovation and capital upgrades to the Theatre. The amount provided is secured by a lien on the property and substantially all assets of the Theatre. The development incentive is intended to be repaid as a forgivable grant. The forgiveness period shall be for a period of 30 years commencing on the last date of payment of any portion of the grant from the escrow. The terms of the forgiveness require the Theatre to maintain operations and its 501(c)(3) status. If the Theatre at any time fails to meet the requirements the City may, at such point, enforce its right of repayment by virtue of the contract, may initiate an action for foreclosure or pursue other legal remedies.

Note 12: Subsequent Events

The Theatre has evaluated subsequent events through March 11, 2020, which is the date these financial statements were available to be issued. The Theatre received approximately \$1,500,000 in July 2019 from the City of Dekalb related to its TIF agreement with the city. The funds are to be used exclusively for the Theatres expansion project. All subsequent events requiring recognition as of June 30, 2019 have been incorporated herein.