

Alley Theatre

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

Alley Theatre

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Independent Auditors' Report

To the Board of Governing Directors of
Alley Theatre:

We have audited the accompanying financial statements of Alley Theatre, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 consolidated financial position of Alley Theatre as of June 30, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the supplemental fund accounting information for the year ended June 30, 2020, supplemental statement of financial position by fund as of June 30, 2020, and the supplemental statement of activities by fund for the year ended June 30, 2020 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blazek & Vetterling

October 15, 2020

Alley Theatre

Consolidated Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash (<i>Note 4</i>)	\$ 2,452,500	\$ 1,703,218
Other receivables	3,044,900	122,182
Prepaid expenses and other assets	484,072	531,967
Contributions receivable, net (<i>Note 5</i>)	2,325,188	3,506,498
Investments (<i>Note 6</i>)	26,250,085	28,478,443
Cash designated for capital reserves (<i>Note 4</i>)		113,610
Property, net (<i>Note 7</i>)	<u>53,960,391</u>	<u>53,999,158</u>
 TOTAL ASSETS	 <u>\$ 88,517,136</u>	 <u>\$ 88,455,076</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 491,509	\$ 830,368
Construction payable	464,487	
Deferred revenue	2,267,024	2,954,032
Notes payable (<i>Note 8</i>)	<u>3,946,614</u>	<u>3,607,853</u>
Total liabilities	<u>7,169,634</u>	<u>7,392,253</u>
Net assets:		
Without donor restrictions	54,006,175	54,467,929
With donor restrictions (<i>Notes 11 and 12</i>)	<u>27,341,327</u>	<u>26,594,894</u>
Total net assets	<u>81,347,502</u>	<u>81,062,823</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 88,517,136</u>	 <u>\$ 88,455,076</u>

See accompanying notes to consolidated financial statements.

Alley Theatre

Consolidated Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 6,335,460	\$ 1,933,555	\$ 8,269,015
Ticket sales	4,380,473		4,380,473
Unused ticket contributions	954,693		954,693
Special events	1,054,349		1,054,349
Cost of direct donor benefits	(160,547)		(160,547)
Ticket and surcharge fees	671,575		671,575
Co-production and other income	385,340		385,340
Concessions and store income	222,971		222,971
Cost of goods sold	(97,666)		(97,666)
Net investment return	42,935	1,795,663	1,838,598
Hurricane Harvey recovery	<u>3,000,000</u>		<u>3,000,000</u>
Total revenue	16,789,583	3,729,218	20,518,801
Net assets released from restrictions:			
Contributed revenue releases:			
Capital campaign	1,500,000	(1,500,000)	
Expiration of time restrictions	320,827	(320,827)	
Endowment distributions	<u>1,161,958</u>	<u>(1,161,958)</u>	
Total	<u>19,772,368</u>	<u>746,433</u>	<u>20,518,801</u>
EXPENSES:			
Production and artistic programs	13,266,626		13,266,626
Marketing and advertising	2,551,024		2,551,024
Management and general	2,823,137		2,823,137
Fundraising	<u>1,593,335</u>		<u>1,593,335</u>
Total expenses	<u>20,234,122</u>		<u>20,234,122</u>
CHANGES IN NET ASSETS	(461,754)	746,433	284,679
Net assets, beginning of year	<u>54,467,929</u>	<u>26,594,894</u>	<u>81,062,823</u>
Net assets, end of year	<u>\$ 54,006,175</u>	<u>\$ 27,341,327</u>	<u>\$ 81,347,502</u>

See accompanying notes to consolidated financial statements.

Alley Theatre

Consolidated Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 8,391,470	\$ 3,470,136	\$ 11,861,606
Ticket sales	7,539,790		7,539,790
Special events	1,676,105		1,676,105
Cost of direct donor benefits	(566,770)		(566,770)
Ticket and surcharge fees	819,334		819,334
Co-production and other income	533,905		533,905
Concessions and store income	317,921		317,921
Cost of goods sold	(103,121)		(103,121)
Net investment return	84,746	1,843,883	1,928,629
Total revenue	18,693,380	5,314,019	24,007,399
Net assets released from restrictions:			
Contributed revenue releases:			
Capital campaign	1,500,000	(1,500,000)	
Expiration of time restrictions	457,950	(457,950)	
Endowment distributions	1,121,052	(1,121,052)	
Total	21,772,382	2,235,017	24,007,399
EXPENSES:			
Production and artistic programs	13,930,732		13,930,732
Marketing and advertising	2,687,911		2,687,911
Management and general	3,166,246		3,166,246
Fundraising	1,932,068		1,932,068
Total expenses	21,716,957		21,716,957
CHANGES IN NET ASSETS BEFORE INVOLUNTARY CONVERSION			
	55,425	2,235,017	2,290,442
Gain on involuntary conversion, net	148,267		148,267
CHANGES IN NET ASSETS	203,692	2,235,017	2,438,709
Net assets, beginning of year	54,264,237	24,359,877	78,624,114
Net assets, end of year	\$ 54,467,929	\$ 26,594,894	\$ 81,062,823

See accompanying notes to consolidated financial statements.

Alley Theatre

Consolidated Statement of Functional Expenses for the year ended June 30, 2020

	PRODUCTION AND ARTISTIC PROGRAMS	MARKETING AND ADVERTISING	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	\$ 6,260,222	\$ 874,802	\$ 1,474,595	\$ 892,335	\$ 9,501,954
Fringe benefits	1,788,076	250,656	377,395	202,003	2,618,130
Depreciation	2,036,294		64,826	12,965	2,114,085
Professional fees	591,754	252,044	156,946	171,745	1,172,489
Advertising		682,758			682,758
Insurance	459,420		101,222	16,808	577,450
Stage set materials	530,223				530,223
Housing and travel	415,677				415,677
Utilities	298,694		60,512	11,468	370,674
Royalties	287,789				287,789
Bank and credit card fees		238,438	15,162		253,600
Conferences, meetings, and social events	7,711		93,298	139,476	240,485
Printing and reproduction	11,821	148,529		51,344	211,694
Supplies	89,780	21,481	44,077	47,217	202,555
Space rental	197,520				197,520
Computer software support			146,467		146,467
Housekeeping services	117,926		21,571	4,314	143,811
Building repair and maintenance	103,790		18,985	3,797	126,572
Postage and delivery	4,635	71,556	3,220	24,509	103,920
Interest			73,779		73,779
Dues, fees and subscriptions	11,690		48,015	4,321	64,026
Outside theatrical production fees	48,487				48,487
Equipment rental and maintenance			47,278		47,278
Subscriber services		10,760			10,760
Other	5,117		75,789	11,033	91,939
Total expenses	<u>\$ 13,266,626</u>	<u>\$ 2,551,024</u>	<u>\$ 2,823,137</u>	<u>\$ 1,593,335</u>	20,234,122
Cost of direct donor benefits					160,547
Cost of goods sold					<u>97,666</u>
Total					<u>\$ 20,492,335</u>

See accompanying notes to consolidated financial statements.

Alley Theatre

Consolidated Statement of Functional Expenses for the year ended June 30, 2019

	PRODUCTION AND ARTISTIC PROGRAMS	MARKETING AND ADVERTISING	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	\$ 6,092,290	\$ 882,572	\$ 1,443,344	\$ 874,223	\$ 9,292,429
Fringe benefits	1,742,793	242,273	382,227	231,178	2,598,471
Depreciation	2,021,183		61,935	12,387	2,095,505
Professional fees	758,229	238,763	415,057	435,940	1,847,989
Advertising		830,591		650	831,241
Insurance	404,050		90,431	14,782	509,263
Stage set materials	838,233				838,233
Housing and travel	534,412				534,412
Utilities	468,807		90,702	17,842	577,351
Royalties	417,427				417,427
Bank and credit card fees		291,386	15,080		306,466
Conferences, meetings, and social events	10,009		118,255	181,618	309,882
Printing and reproduction	19,935	138,167		58,894	216,996
Supplies	111,152	37,354	54,534	66,332	269,372
Space rental	218,684				218,684
Computer software support			134,253		134,253
Housekeeping services	144,557		26,443	5,289	176,289
Building repair and maintenance	115,699		21,164	4,233	141,096
Postage and delivery	11,008	9,093	5,314	21,513	46,928
Interest			205,619		205,619
Dues, fees and subscriptions	4,991		40,943	2,071	48,005
Equipment rental and maintenance	12,559		40,475		53,034
Subscriber services		17,712			17,712
Other	4,714		20,470	5,116	30,300
Total expenses	<u>\$ 13,930,732</u>	<u>\$ 2,687,911</u>	<u>\$ 3,166,246</u>	<u>\$ 1,932,068</u>	21,716,957
Cost of direct donor benefits					566,770
Cost of goods sold					<u>103,121</u>
Total					<u>\$ 22,386,848</u>

See accompanying notes to consolidated financial statements.

Alley Theatre

Notes to Consolidated Financial Statements for the years ended June 30, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Alley Theatre (the Alley) is a professional resident theatre company located in Houston, Texas and incorporated in 1948 under the provisions of the Texas Nonprofit Corporation Act. It exists to deepen the understanding of ourselves, one another, and the world we share by uniting theatre artists and audiences to experience the power of stories that illuminate the breadth and complexities of the human condition.

In March 1997, the Board of Governing Directors established a subsidiary of the Alley, Alley Theatre Productions (ATP), to handle income and production fees for productions in which the Alley has subsidiary rights.

Basis of presentation – The financial statements present the consolidated statements of financial position, activities, functional expenses, and cash flows of the Alley and ATP. All balances and transactions between these consolidated entities have been eliminated.

Federal income tax status – The Alley and ATP are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. The Alley is classified as public charity under §509(a)(2). ATP is classified as a Type I supporting organization under §509(a)(3).

Cash includes demand deposits and certificates of deposit. Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible contributions is estimated based on management's periodic evaluation of past loss experience, known adverse situations that may affect the donor's ability to pay, and current economic conditions. It is possible that management's estimate regarding the collectability of these balances will change in the near term resulting in a change in the carrying value of contributions receivable.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property is reported at cost if purchased and at fair value at the date of gift if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets, as follows:

Building shell of the Alley Theatre Center for Theatre Production	60 years
Building shell of the Alley and other major renovations	40 years
Building improvements	10 years
Equipment	3 to 10 years

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Generally, contributions received with donor stipulations that limit their use are classified as restricted support. Restricted contributions whose purpose is met in the same reporting period are recognized as unrestricted contributions and increase net assets without donor restrictions. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Ticket sales and related fees are recognized when the performance occurs. Amounts received but unearned for subsequent performance seasons are included in the statement of financial position as deferred revenue.

Production costs related to future seasons are deferred as prepaid expenses when incurred and charged to expense when the performances are conducted.

Advertising costs are expensed as incurred, except for expenditures related to future seasons, which are reported as prepaid expenses. In 2020 and 2019, the Alley expensed \$682,758 and \$831,241, respectively, for advertising costs.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of building and improvements, occupancy costs, office supplies, and postage are allocated based on square footage. Communication costs are allocated based on usage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by

other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. The Alley is required to adopt this ASU for fiscal year 2021 using an appropriate retrospective method. Management believes the adoption of this ASU will not have a material impact on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2018-08

Effective July 1, 2019, the Alley adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. This ASU has been applied on a retrospective basis to the financial statements for the year ended June 30, 2019. Adoption of this standard had no impact on 2019 net assets or changes in net assets.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 2,452,500	\$ 1,703,218
Other receivables	3,044,900	122,182
Contributions receivable	2,325,188	3,506,498
Investments	26,250,085	28,478,443
Cash designated for capital reserves		<u>113,610</u>
Total financial assets	34,072,673	33,923,951
Less financial assets not available for general expenditure:		
Donor-restricted endowment investments not approved for use in coming year	(23,256,684)	(22,589,816)
Contributions receivable contractually obligated for debt repayment	(945,833)	(1,695,217)
Restricted by donors for use in future periods or for future projects	(11,600)	(1,072,959)
Board-designated for capital reserves		<u>(113,610)</u>
Total financial assets available for general expenditure	<u>\$ 9,858,556</u>	<u>\$ 8,452,349</u>

The Alley is supported primarily by contributions, tickets sales revenue, and investment income. Because donor restrictions on contributions may require resources to be used in a particular manner or in a future period, financial assets may not be available for general expenditures within one year. The Alley structures its financial assets to be available as general expenditures, liabilities, and other obligations become due. In addition, the Alley invests cash in excess of immediate requirements in short-term investments according to a policy approved by the Board of Governing Directors.

The above information reflects the Alley's financial assets as of June 30 reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions within one year. Amounts not available include contributions and cash on hand restricted for use in a future period or for a specific purpose, donor-restricted endowment investments, and board-designated funds unless those restrictions or designations are intended to be satisfied within one year.

In the Spring of 2020, the COVID-19 pandemic severely impacted the performance schedule of the Alley, resulting in the cancellation of performances in the last quarter of the 2020 season and the need to reformat the 2021 season. Various cost cutting measures across all functional areas have been made to compensate for the impact of revenue reductions, resulting in a modified balanced budget. The Development Department has shifted its *Vision for the Future* campaign to a COVID-19 relief campaign. The Alley received approximately \$2.15 million through the Paycheck Protection Program (see Note 8), which is expected to be substantially forgiven in 2021.

NOTE 4 – CASH

Cash consists of the following:

	<u>2020</u>	<u>2019</u>
Demand deposits	\$ 2,329,739	\$ 1,590,840
Certificates of deposit	<u>122,761</u>	<u>225,988</u>
Total cash	<u>\$ 2,452,500</u>	<u>\$ 1,816,828</u>

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2020</u>	<u>2019</u>
Annual fund	\$ 1,434,705	\$ 794,294
Capital campaign	945,833	2,301,039
<i>Vision for the Future</i> campaign	<u>214,822</u>	<u>609,899</u>
Total contributions receivable	2,595,360	3,705,232
Unamortized discount (at rates ranging from 0.29% to 2.73%)	(2,385)	(21,517)
Allowance for uncollectible contributions receivable	<u>(267,787)</u>	<u>(177,217)</u>
Contributions receivable, net	<u>\$ 2,325,188</u>	<u>\$ 3,506,498</u>

Contributions receivable at June 30, 2020 are expected to be collected as follows:

Receivable in less than one year	\$ 2,573,760
Receivable in one to five years	<u>21,600</u>
Total contributions receivable	<u>\$ 2,595,360</u>

At June 30, 2020, the Alley has approximately \$381,000 of conditional contributions stemming from table sponsors for an event that is to take place in April 2021. These have not been recognized in the accompanying financial statements because the conditions have not been met. The Alley will recognize these contributions when the event occurs.

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments

Investments are held for the following purposes:

	<u>2020</u>	<u>2019</u>
Endowment fund	\$ 24,398,751	\$ 23,708,846
Operating fund	<u>1,851,334</u>	<u>4,769,597</u>
Total investments	<u>\$ 26,250,085</u>	<u>\$ 28,478,443</u>

Fair Value

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Large-cap	\$ 14,226,939			\$ 14,226,939
International	3,335,722			3,335,722
Mid-cap	208,310			208,310
Corporate bonds		\$ 5,972,230		5,972,230
Mutual funds:				
Money market	1,957,814			1,957,814
Small-cap equity	<u>549,070</u>			<u>549,070</u>
Total assets measured at fair value	<u>\$ 20,277,855</u>	<u>\$ 5,972,230</u>	<u>\$ 0</u>	<u>\$ 26,250,085</u>

Assets measured at fair value at June 30, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Large-cap	\$ 13,476,579			\$ 13,476,579
International	3,492,514			3,492,514
Mid-cap	89,716			89,716
Corporate bonds		\$ 6,502,159		6,502,159
Mutual funds:				
Money market	4,335,879			4,335,879
Small-cap equity	<u>581,596</u>			<u>581,596</u>
Total assets measured at fair value	<u>\$ 21,976,284</u>	<u>\$ 6,502,159</u>	<u>\$ 0</u>	<u>\$ 28,478,443</u>

Valuation methods used for assets measured at fair value are as follows:

- *Common stock* is valued at the closing price reported on the active market on which the individual securities are traded.
- *Corporate bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Mutual funds* are valued at the reported net asset value of shares held.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Alley believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 7 – PROPERTY

Property consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 970,675	\$ 970,675
Building and improvements	63,485,290	63,534,848
Equipment	7,042,629	6,840,659
Construction in progress	<u>2,187,361</u>	<u>314,013</u>
Total property, at cost	73,685,955	71,660,195
Accumulated depreciation	<u>(19,725,564)</u>	<u>(17,661,037)</u>
Property, net	<u>\$ 53,960,391</u>	<u>\$ 53,999,158</u>

NOTE 8 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2020</u>	<u>2019</u>
In April 2020, the Alley received an unsecured bank loan of \$2,152,321 funded through the Federal Paycheck Protection Program (PPP). The loan bears interest at 1.0% and may be repaid over 2 years. PPP loan principal and interest may be forgiven, in whole or in part, if funds are used for the intended purposes within 24 weeks of funding. The Alley intends to apply for forgiveness and will recognize any forgiveness granted upon approval by the lender.	\$ 2,152,321	
Note payable to finance theatre renovations and artistic enhancements until capital campaign pledges are collected. Interest rate at the overnight LIBOR plus 1.10% (0.51% at June 30, 2020). Interest and principal payments from collections of capital campaign pledges are due monthly until maturity on July 1, 2021. The loan is collateralized by capital campaign pledges of \$945,833 at June 30, 2020. No real estate or improvements of the Alley can be used to grant a lien, mortgage, or other encumbrance to any other party.	<u>1,794,293</u>	<u>\$ 3,607,853</u>
Total notes payable	<u>\$ 3,946,614</u>	<u>\$ 3,607,853</u>

Scheduled maturities of notes payable are as follows:

2021	\$ 945,833
2022	<u>3,000,781</u>
Total	<u>\$ 3,946,614</u>

Interest expense recognized on notes payable were approximately \$64,000 in 2020 and \$195,000 in 2019.

NOTE 9 – RETIREMENT PLANS

The Alley maintains the Alley Theatre §401(k) Retirement Plan covering employees who work at least 1,000 hours per year and are not covered by the Equity-League Pension Trust Fund. This plan is a contributory, defined contribution plan. Eligible employees may elect to defer pre-tax compensation to the plan, subject to certain Internal Revenue Service limitations. The Alley matched 100% of each participant's contribution, up to 5% of compensation in 2020 and 2019. The Alley also maintains a §457 plan for certain employees. Contributions to these plans were \$276,427 in 2020 and \$280,693 in 2019.

NOTE 10 – MULTIEMPLOYER PENSION PLANS

The Alley is a participating employer in three trustee-managed, multiemployer defined benefit pension plans for employees who are covered under collective bargaining agreements. The plans generally provide retirement benefits to employees based on years of service. The multiemployer pension plans are managed by boards of trustees with equal representation from the union and employers. Contributions totaling \$96,453 in 2020 and \$129,410 in 2019 were charged to pension expense for ongoing participation in these pension plans. The Alley's contributions to these plans are less than 5% of each plan's total contributions.

The risks of participating in a multiemployer defined benefit pension plan are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Alley chooses to stop participating in the multiemployer plan, it may be required to pay a withdrawal liability to the plan. In connection with ongoing renegotiation of the collective bargaining agreements, the Alley may discuss and negotiate for complete or partial withdrawal from the multiemployer pension plan. Depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer plan at the time of withdrawal, the associated withdrawal liabilities could be material to the Alley's consolidated changes in net assets in the period of the withdrawal. The Alley has no plans to withdraw from its multiemployer pension plan.

The following presents information about the Alley’s multiemployer pension plans as of June 30, 2020 and 2019 and the years ended June 30, 2020 and 2019:

NAME OF PENSION PLAN	EIN AND PLAN NUMBER, IF AVAILABLE	PENSION PROTECTION ACT ZONE STATUS		FIP/RP STATUS	CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30,		SURCHARGE IMPOSED	EXPIRATION OF COLLECTIVE BARGAINING AGREEMENT
		2020	2019		2020	2019		
Equity-League Pension Trust Fund	13-6696817 Plan No. 001	Green 6/1/20	Green 6/1/19	N/A	\$68,518	\$92,051	No	2/13/22
SDC-League Pension Fund	13-6634482 Plan No. 001	Yellow 9/1/19	Yellow 9/1/18	N/A	\$6,793	\$10,462	No	4/14/22
Pension Fund of United Scenic Artists, Local 829	13-1982707 Plan No. 001	Green 1/1/19	Green 1/1/19	N/A	\$21,142	\$26,897	No	6/30/22

The Alley also participates in three multiemployer defined contribution health and welfare plans. Total contributions to these plans were approximately \$171,000 in 2020 and \$211,000 in 2019.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Capital campaign	\$ 1,186,928	\$ 2,541,223
Subject to passage of time:		
Use in future seasons	1,755,648	344,825
Endowment:		
Subject to spending policy and appropriations	11,360,408	10,726,703
Required to be maintained in perpetuity	<u>13,038,343</u>	<u>12,982,143</u>
Total net assets with donor restrictions	<u>\$ 27,341,327</u>	<u>\$ 26,594,894</u>

NOTE 12 – ENDOWMENT

Changes in net assets of the endowment funds are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		<u>TOTAL</u>
	<u>SUBJECT TO SPENDING POLICY AND APPROPRIATIONS</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	
Endowment net assets, June 30, 2018	\$ 10,003,872	\$ 12,982,143	\$ 22,986,015
Net investment return	1,843,883		1,843,883
Distributions to the Alley	<u>(1,121,052)</u>	<u> </u>	<u>(1,121,052)</u>
Endowment net assets, June 30, 2019	10,726,703	12,982,143	23,708,846
Contributions		56,200	56,200
Net investment return	1,795,663		1,795,663
Distributions to the Alley	<u>(1,161,958)</u>	<u> </u>	<u>(1,161,958)</u>
Endowment net assets, June 30, 2020	<u>\$ 11,360,408</u>	<u>\$ 13,038,343</u>	<u>\$ 24,398,751</u>

The Board of Governing Directors of the Alley has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Alley classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure in a manner consistent with the standards of prudence prescribed by TUPMIFA.

Return Objectives and Risk Parameters

The Alley has adopted investment and spending policies for endowment assets that have the primary objective of achieving a long-term rate-of-return that will assist the Alley in meeting its operating needs while maintaining its ability to provide for future needs without subjecting the endowment funds to imprudent risks.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Alley relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Alley currently targets an asset allocation that includes fixed-income investments, but places a greater emphasis on equity-based investments to achieve its long-term return objectives with target allocation parameters.

As different asset classes produce different returns during the course of the year, the portfolio's asset allocation changes accordingly. The Alley reviews the portfolio's actual asset allocation, relative to established policy target and ranges. If deemed necessary and with the advice of a qualified investment manager, the Alley will rebalance the portfolio between the various asset classes based on market values.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Alley uses earnings from the endowment to support operations. The Alley transfers a percentage of the average fair value of the assets in the endowment based on the value at the end of each of the prior twelve quarters. The Alley calculates this transfer quarterly based on the rate approved by the investment committee each year. The approved rate for both 2020 and 2019 was 5%.

NOTE 13 – COMMITMENTS

Lease commitments

The Alley leases certain facilities under non-cancelable operating lease agreements. Future minimum lease payments under these operating leases as of June 30, 2020 are as follows:

2021	\$ 167,069
2022	122,240
2023	125,506
2024	128,870
2025	132,335
Thereafter through 2029	<u>503,789</u>
Total	<u>\$ 1,179,809</u>

Total rent expense for 2020 was \$197,520, which includes operational costs related to the lease agreements.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 15, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Alley Theatre

Supplemental Fund Accounting Information for the year ended June 30, 2020

The Alley's accounts are maintained in accordance with the principles of fund accounting. Resources are classified for internal accounting purposes into funds established according to the nature and purpose of the resources. The accounting records of the Alley are classified internally in the Operating Fund, Capital Campaign, Plant Fund, and Endowment Fund as follows:

- *Operating Fund* includes the principal functions of the Alley's operations.
- *Capital Campaign* includes the amounts designated for the purpose of building and equipping the Alley renovations.
- *Plant Fund* includes the completed facilities and equipment of the existing theatre, as well as the building reserve fund.
- *Endowment Fund* includes funds invested to generate income that may be used for the Alley's general operations and for purposes specified by the donor.

All funds in the Endowment Fund are pooled for investment purposes. The Endowment Fund transferred \$1,161,958 to the Operating Fund in 2020.

Alley Theatre

Supplemental Statement of Financial Position by Fund as of June 30, 2020

	OPERATING FUND	CAPITAL CAMPAIGN	PLANT FUND	HURRICANE HARVEY	ENDOWMENT FUND	TOTAL
ASSETS						
Cash	\$ 1,654,640	\$ 559,920	\$ 237,940			\$ 2,452,500
Amounts due (to) from another fund	4,955,464	2,866,829	(237,940)	\$ (7,340,743)	\$ (243,610)	
Other receivables	44,900	3,000,000				3,044,900
Prepaid expenses and other assets	484,072					484,072
Contributions receivable, net	1,407,573	917,615				2,325,188
Investments	1,587,714				24,662,371	26,250,085
Property, net			53,960,391			53,960,391
TOTAL ASSETS	\$ 10,134,363	\$ 7,344,364	\$ 53,960,391	\$ (7,340,743)	\$ 24,418,761	\$ 88,517,136
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable and accrued expenses	\$ 471,499				\$ 20,010	\$ 491,509
Construction payable				\$ 464,487		464,487
Deferred revenue	2,267,024					2,267,024
Notes payable	2,152,321	\$ 1,794,293				3,946,614
Total liabilities	4,890,844	1,794,293		464,487	20,010	7,169,634
Net assets:						
Without donor restrictions	3,487,871	4,363,143	\$ 53,960,391	(7,805,230)		54,006,175
With donor restrictions	1,755,648	1,186,928			24,398,751	27,341,327
Total net assets	5,243,519	5,550,071	53,960,391	(7,805,230)	24,398,751	81,347,502
TOTAL LIABILITIES AND NET ASSETS	\$ 10,134,363	\$ 7,344,364	\$ 53,960,391	\$ (7,340,743)	\$ 24,418,761	\$ 88,517,136

Alley Theatre

Supplemental Statement of Activities by Fund for the year ended June 30, 2020

	OPERATING FUND	CAPITAL CAMPAIGN	PLANT FUND	HURRICANE HARVEY	ENDOWMENT FUND	TOTAL
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:						
REVENUE:						
Contributions	\$ 6,416,878	\$ (121,421)		\$ 40,003		\$ 6,335,460
Ticket sales	4,380,473					4,380,473
Special events	1,054,349					1,054,349
Cost of direct donor benefits	(160,547)					(160,547)
Ticket donations	954,693					954,693
Ticket and surcharge fees	671,575					671,575
Co-production and other income	373,301			12,039		385,340
Concessions and store income	222,971					222,971
Cost of goods sold	(97,666)					(97,666)
Net investment return	38,837	4,098				42,935
Hurricane Harvey recovery		3,000,000				3,000,000
Total revenue	<u>13,854,864</u>	<u>2,882,677</u>		<u>52,042</u>		<u>16,789,583</u>
Net assets released from restrictions:						
Capital campaign	1,500,000					1,500,000
Expiration of time restrictions	320,827					320,827
Endowment distributions	<u>1,161,958</u>					<u>1,161,958</u>
Total	<u>16,837,649</u>	<u>2,882,677</u>		<u>52,042</u>		<u>19,772,368</u>
EXPENSES:						
Production and artistic programs	11,230,331		\$ 2,036,295			13,266,626
Marketing and advertising	2,551,024					2,551,024
Management and general	2,657,642	63,732	64,826	36,937		2,823,137
Fundraising	<u>1,388,814</u>	<u>191,556</u>	<u>12,965</u>			<u>1,593,335</u>
Total expenses	<u>17,827,811</u>	<u>255,288</u>	<u>2,114,086</u>	<u>36,937</u>		<u>20,234,122</u>

(continued)

Alley Theatre

Supplemental Statement of Activities by Fund for the year ended June 30, 2020

(continued)

	OPERATING FUND	CAPITAL CAMPAIGN	PLANT FUND	HURRICANE HARVEY	ENDOWMENT FUND	TOTAL
Transfer of assets to between funds	<u>3,000,000</u>	<u>(3,088,360)</u>	<u>1,961,709</u>	<u>(1,873,349)</u>		
Changes in net assets without donor restrictions	<u>2,009,838</u>	<u>(460,971)</u>	<u>(152,377)</u>	<u>(1,858,244)</u>		<u>(461,754)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:						
REVENUE:						
Contributions	1,731,650	145,705			\$ 56,200	1,933,555
Net investment return					<u>1,795,663</u>	<u>1,795,663</u>
Total	1,731,650	145,705			1,851,863	3,729,218
Net assets released from restrictions:						
Capital campaign		(1,500,000)				(1,500,000)
Expiration of time restrictions	(320,827)					(320,827)
Endowment distributions					<u>(1,161,958)</u>	<u>(1,161,958)</u>
Changes in net assets with donor restrictions	<u>1,410,823</u>	<u>(1,354,295)</u>			<u>689,905</u>	<u>746,433</u>
TOTAL CHANGES IN NET ASSETS	3,420,661	(1,815,266)	(152,377)	(1,858,244)	689,905	284,679
Net assets, beginning of year	<u>1,822,858</u>	<u>7,365,337</u>	<u>54,112,768</u>	<u>(5,946,986)</u>	<u>23,708,846</u>	<u>81,062,823</u>
Net assets, end of year	<u>\$ 5,243,519</u>	<u>\$ 5,550,071</u>	<u>\$ 53,960,391</u>	<u>\$ (7,805,230)</u>	<u>\$ 24,398,751</u>	<u>\$ 81,347,502</u>