

**WHITE HERON THEATRE COMPANY  
NANTUCKET, MASSACHUSETTS**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
**White Heron Theatre Company**  
Nantucket, Massachusetts

We have audited the accompanying financial statements of White Heron Theatre Company (a nonprofit organization), which comprise the statements of financial position as December 31, 2017 and 2016, and the related statements of activities and changes in net assets (deficit), 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 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.

To the Board of Directors  
**White Heron Theatre Company**  
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**Opinion**

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of White Heron Theatre Company as of December 31, 2017 and 2016, 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.

Edina, Minnesota  
January 31, 2018

*L. M. J. CPA*

Edina Office  
952 945 5011  
6800 France Ave. S., Suite 120  
Edina, MN 55435  
FAX 952 516 5577



Nantucket Office  
508 228 9090  
PO Box 718  
Nantucket, MA 02554  
w Rapacki.com

**WHITE HERON THEATRE COMPANY**

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Edina, Minnesota  
January 31, 2018

**WHITE HERON THEATRE COMPANY**

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2017 and 2016**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 99,011	\$ 351,743
Investments (Note 2)	-	30,607
Restricted cash and cash equivalents (Note 8)	-	17,277
Prepaid expenses	42,193	29,018
Total Current Assets	141,204	428,645
Property and Equipment, net (Note 3)	6,108,718	6,238,844
<b>TOTAL ASSETS</b>	<b>\$ 6,249,922</b>	<b>\$ 6,667,489</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>		
<b>Current Liabilities</b>		
Obligation under line of credit agreement (Note 8)	\$ -	\$ 6,345,000
Current portion of long-term debt (Note 6)	246,429	-
Due to related party (Note 8)	123,453	87,302
Accrued interest	-	83,756
Accrued payroll and payroll taxes	3,218	2,349
Total Current Liabilities	373,100	6,518,407
Long-Term Debt, net (Note 6)	6,075,841	-
Total Liabilities	6,448,941	6,518,407
<b>Net Assets (Deficit)</b>		
Unrestricted net assets (deficit)	(279,019)	149,082
Temporarily restricted (Note 7)	80,000	-
Total Net Assets (Deficit)	(199,019)	149,082
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<b>\$ 6,249,922</b>	<b>\$ 6,667,489</b>

**See Notes to Financial Statements**

**WHITE HERON THEATRE COMPANY**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)**

**For the Year Ended December 31, 2017**

**With Comparative Totals for the Year Ended December 31, 2016**

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
<b>Support</b>				
Contributions	\$ 480,943	\$ 80,000	\$ 560,943	\$ 634,555
<b>Revenues</b>				
Box office	263,844	-	263,844	111,354
Playbill advertising income	13,710	-	13,710	9,925
Total Revenues	277,554	-	277,554	121,279
Total Support and Revenues	758,497	80,000	838,497	755,834
<b>Functional Expenses</b>				
Program Services	780,058	-	780,058	579,173
General and administrative	200,280	-	200,280	72,500
Fundraising	93,985	-	93,985	14,337
Total Functional Expenses	1,074,323	-	1,074,323	666,010
Change in Net Assets from Operating Activities	(315,826)	80,000	(235,826)	89,824
<b>Non-Operating Activities</b>				
Realized gain on investments	3,003	-	3,003	3,387
Interest income	338	-	338	1,021
Unrealized (loss) on investments	(193)	-	(193)	(1,823)
Interest expense	(115,423)	-	(115,423)	(71,148)
Total Non-Operating Activities	(112,275)	-	(112,275)	(68,563)
Change in Net Assets	(428,101)	80,000	(348,101)	21,261
<b>NET ASSETS, BEGINNING OF YEAR</b>	149,082	-	149,082	127,821
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	\$ (279,019)	\$ 80,000	\$ (199,019)	\$ 149,082

**See Notes to Financial Statements**



**WHITE HERON THEATRE COMPANY**

**STATEMENTS OF FUNCTIONAL EXPENSES**

For the Year Ended December 31, 2017

With Comparative Totals for the Year Ended December 31, 2016

	Program Services	General & Administrative	Fundraising	Totals	
				2017	2016
Payroll and payroll taxes	\$ 167,671	\$ 111,780	\$ 49,315	\$ 328,766	\$ 132,431
Depreciation	206,870	18,388	4,597	229,855	111,368
Accommodations	95,648	-	-	95,648	85,091
Outside services	60,241	-	23,922	84,163	92,352
Production materials	64,189	-	-	64,189	69,500
Employee benefits	34,267	4,032	2,016	40,315	23,101
Travel	29,635	3,293	-	32,928	28,184
Insurance	27,901	3,283	1,641	32,825	19,436
Box office expenses	31,522	-	-	31,522	8,918
Advertising	28,852	-	-	28,852	19,552
Utilities	21,021	1,868	467	23,356	12,072
Repairs and maintenance	-	22,712	-	22,712	12,146
Professional fees	566	18,686	3,398	22,650	16,090
Office expenses	322	10,624	1,932	12,878	31,204
Bank fees	10,270	1,284	1,284	12,838	2,044
Miscellaneous	1,083	4,330	5,413	10,826	2,521
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 780,058</b>	<b>\$ 200,280</b>	<b>\$ 93,985</b>	<b>\$ 1,074,323</b>	<b>\$ 666,010</b>

**See Notes to Financial Statements**

**WHITE HERON THEATRE COMPANY**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ (348,101)	\$ 21,261
Adjustments to reconcile change in net assets to net cash from operations:		
Depreciation	229,855	111,368
Noncash stock contributions	-	(25,000)
Unrealized loss on investments	193	1,823
Realized (gain) on investments	(3,003)	(3,387)
Amortization of deferred financing costs charged to interest expense	6,538	-
Interest paid with long term debt refinance	10,863	-
(Increase) decrease in:		
Prepaid expenses	(13,175)	(14,372)
Increase (decrease) in:		
Accounts payable	-	(86,423)
Accrued interest	-	71,148
Accrued payroll and payroll taxes	869	1,565
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>(115,961)</u>	<u>77,983</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of investments	33,417	44,079
Purchase of property and equipment	(99,729)	(4,355,243)
<b>Net Cash (Used In) Investing Activities</b>	<u>(66,312)</u>	<u>(4,311,164)</u>

**See Notes to Financial Statements**

	2017	2016
<b>Continued</b>		
<b>Cash Flows From Financing Activities</b>		
Proceeds from long term debt	36,151	-
Proceeds from obligation under line of credit	-	4,000,000
Financing costs paid	(5,000)	-
Principal payments on long term debt	(118,887)	-
	<u>(87,736)</u>	<u>4,000,000</u>
Net Cash Provided By (Used In) Investing Activities	(87,736)	4,000,000
<b>Net (Decrease) in Cash and Cash Equivalents</b>	<b>(270,009)</b>	<b>(233,181)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>369,020</b>	<b>602,201</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 99,011</b>	<b>\$ 369,020</b>

**Cash and Cash Equivalents as Presented on the Statement of Financial Position:**

Cash and cash equivalents	\$ 99,011	\$ 351,743
Restricted cash and cash equivalents	-	17,277
	<u>\$ 99,011</u>	<u>\$ 369,020</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the year for:		
Interest	\$ 192,641	\$ -
Noncash investing and financing transactions:		
Cost of property and equipment	\$ 99,729	\$ 4,268,820
Prior year costs in accounts payable	-	86,423
	<u>\$ 99,729</u>	<u>\$ 4,355,243</u>
Cash paid for property and equipment	\$ 99,729	\$ 4,355,243
Refinance proceeds	\$ 6,500,000	\$ -
Payoff of obligation under line of credit agreement	(6,345,000)	-
Payoff of accrued interest	(94,619)	-
Financing costs of loan	(60,381)	-
	<u>\$ -</u>	<u>\$ -</u>
Proceeds from refinance of debt	\$ -	\$ -

# WHITE HERON THEATRE COMPANY

## NOTES TO FINANCIAL STATEMENTS

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### 1. Description of Organization and Summary of Significant Accounting Policies

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#### Description of Organization

White Heron Theatre Company (the Organization) is a nonprofit organization whose mission is to bring meaningful art to Nantucket through a unique process of collaboration and building a tight professional, acting ensemble and to produce theatrical work that engages the audience in a transformative experience.

#### Basis of Presentation

Financial statement presentation follows FASB ASC 958. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets as of December 31, 2017 and 2016.

#### Basis of Accounting and Revenue Recognition

The Organization keeps its books on the accrual basis of accounting. All income and expenses are recorded as they are earned or incurred.

#### Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

#### Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful life of the asset of two years. The Organization's policy is to capitalize and depreciate property and equipment purchased or obtained which has a cost in excess of \$5,000 and a useful life of at least one year.

#### Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

All other contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

**WHITE HERON THEATRE COMPANY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**1. Description of Organization and Summary of Significant Accounting Policies (Continued)**

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Contributions (Continued)

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As a result, the Organization doesn't pay federal income tax. Therefore, no provision or liability for federal income taxes has been included in the financial statements.

Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures.

The Organization's federal informational returns are subject to examination by the IRS, generally for three years after they were filed.

Advertising Costs

The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2017 and 2016 was \$28,852 and \$19,552, respectively.

Fair Value of Financial Instruments

The carrying amount for substantially all assets and liabilities approximates fair value due to the immediate or short-term maturity of these financial instruments. The fair value of long-term debt approximates carrying value because the terms are equivalent to borrowing rates currently available to the Organization for debt with similar terms and maturities. See Note 4 for discussion of fair value regarding the Organization's investments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

WHITE HERON THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risks

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. The Organization keeps its cash with high quality financial institutions. At times, balances maintained at these financial institutions may exceed the federally insured limit. The Organization had no cash balances in excess of the federally insured limit as of December 31, 2017. As of December 31, 2016, cash balances in excess of the federally insured limit totaled approximately \$101,000.

Functional Allocation of Expenses

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

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform with the presentation in the 2017 financial statements.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 31, 2018, the date the financial statements were available to be issued.

2. Investments

Investments as of December 31, 2017 and 2016, consisted of the following:

	2017		2016	
	Cost	Market	Cost	Market
Mutual funds	\$ -	\$ -	\$ 25,000	\$ 24,637
Common stock	-	-	6,248	5,970
Total Investments	\$ -	\$ -	\$ 31,248	\$ 30,607

Unrealized losses of \$193 and \$1,823 were recognized in the financial statements related to investments for the years ended December 31, 2017 and 2016, respectively.

## WHITE HERON THEATRE COMPANY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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#### 3. Property and Equipment

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Property and equipment as of December 31, 2017 and 2016 consisted of the following:

	2017	2016
Property and equipment	\$ 6,449,941	\$ 6,350,212
Less: Accumulated depreciation	(341,223)	(111,368)
Property and equipment, net	<u>\$ 6,108,718</u>	<u>\$ 6,238,844</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$229,855 and \$111,368, respectively.

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#### 4. Fair Value Measurements

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Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

**Level 2:** Inputs to the valuation methodology include:

- 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

If the asset or liability has a specific (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 are unobservable and significant to the fair value measurement.

**WHITE HERON THEATRE COMPANY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. Fair Value Measurements (Continued)**

The asset's 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 is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

**Mutual funds:** Mutual funds are reported at the fair value based on the quoted market price of the fund, as reported by the Organization's brokerage firm.

**Common stocks:** Common stocks are reported at fair value based on the quoted market price of the stock, as reported by the Organization's brokerage firm.

The methods described above may produce fair values that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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.

The following table reflects the Organization's investments within the fair value hierarchy at December 31, 2016:

Description	As of December 31, 2016			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual funds	\$ 24,637	\$ 24,637	\$ -	\$ -
Common stock	5,970	5,970	-	-
<b>TOTAL</b>	<b>\$ 30,607</b>	<b>\$ 30,607</b>	<b>\$ -</b>	<b>\$ -</b>



**WHITE HERON THEATRE COMPANY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. Multi-Employer Retirement Plan**

The Organization contributes to a union-sponsored multi-employer pension plan in accordance with the negotiated union contract. The plan generally provides retirement benefits to participants based on their service to contributing employers. Assets contributed to multi-employer pension plans are used to provide benefits to employees of the participating employers. The Organization does not administer the multiemployer plan.

The plan covers all union employees, which represents approximately 53% of the Organization's employees. Contributions, based on 8% for the payroll earned by the covered employees, totaled \$6,578 and \$3,815 for the years ended December 31, 2017 and 2016, respectively.

The Organization's participation in the plan is outlined below:

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Contributions		Surcharges	CBA Expiration Date
		2017	2016		2017	2016		
Equity-League Pension Trust Fund	13-6696817 Plan 001	Green	Green	None	<u>\$ 6,578</u>	<u>\$ 3,815</u>	None	6/2/2019

The Pension Protection Act Zone Status is based on information that the Organization received from the plan and is certified by the plan's actuary. The most recent plan year zone status is not yet available; the most recent available plan information is presented. Among other factors, plans in a red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

The "FIP/RP Status" column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreements (CBA) to which the plans are subject.

Government regulations significantly increase pension responsibilities for participating employers. Under these regulations, if a plan terminates or the employer withdraws, the Organization could be subject to a substantial withdrawal liability. The Organization does not anticipate withdrawal from the plans, nor is the Organization aware of any unexpected plan terminations.

**WHITE HERON THEATRE COMPANY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**6. Long-Term Debt**

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Long-term debt at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Variable interest installment note, set at 2.99% through June 30, 2018, due in monthly principal and interest payments currently of \$36,151 through June 30, 2022 at which time a final principal payment is due, guaranteed by a limited liability company partially owned by a director of the Organization and secured by substantially all of the Organization's assets	\$ 6,381,113	\$ -
Less: Unamortized deferred financing costs	58,843	-
Less: Current portion	<u>246,429</u>	<u>-</u>
Long-Term Debt, net	<u>\$ 6,075,841</u>	<u>\$ -</u>

Maturities as of December 31, 2017 on long-term debt were as follows:

<u>For the Years Ended December 31,</u>	<u>Totals</u>
2018	\$ 246,429
2019	253,900
2020	261,596
2021	269,526
2022	<u>5,349,662</u>
Total	<u>\$ 6,381,113</u>

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**7. Temporarily Restricted Net Assets**

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Temporarily restricted net assets consisted of \$75,000 restricted for educational programs as of December 31, 2017.

**WHITE HERON THEATRE COMPANY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**8. Related Party Transactions**

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*Due to Related Party*

The Organization owed \$87,302 to one of their directors and founder as of December 31, 2017 and 2016. The note is non-interest bearing and is due on demand.

The Organization owed \$36,151 to one of their directors and founder as of December 31, 2017. The note bears interest at 1.5% and is due on demand.

*Line of Credit Agreement and Restricted Cash*

The Organization had a revolving line of credit agreement with a limited liability company, whose partial owner is also a director, which allowed for borrowings up to \$6,345,000. The line bore interest at 1.50%. The Organization had drawn \$6,345,000 against the line as of December 31, 2016. Accrued interest related to the line was \$83,756 as of December 31, 2016. During the year ended December 31, 2017 the Organization refinanced the line of credit agreement into a long-term debt agreement with a bank, see Note 6.

Draws on the line, referred to above, but not spent as of December 31, 2016 totaled \$17,277. These funds were held in a separate bank account and were restricted for the use of building.

*Commitments*

The Organization leases the land on which their theater is built from a limited liability company, whose partial owner is also a director. The lease runs through December 31, 2033, with two renewal options for five additional years each. The lease agreement requires annual rent payments of \$1. If the Organization ceases to use the land as a non-profit theater for the performing arts, the lease will terminate.

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**9. Major Donor**

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The Organization had donations from one donor totaling approximately \$300,000 during the year ended December 31, 2016. The amount represents approximately 47% of total donations in 2016.

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