

Lynne Bolton

**WHITE HERON THEATRE COMPANY
NANTUCKET, MASSACHUSETTS**

**FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

WHITE HERON THEATRE COMPANY

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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, 2016 and 2015, and the related statements of activities and changes in unrestricted net assets, 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.

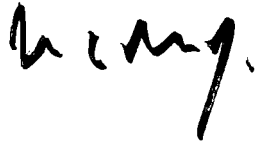
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, 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 12, 2017

A handwritten signature in black ink, appearing to read "W. Rapacki".

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WHITE HERON THEATRE COMPANY

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	2016	2015
Current Assets		
Cash and cash equivalents	\$ 351,743	\$ 52,014
Investments (Note 2)	30,607	48,122
Restricted cash and cash equivalents (Note 6)	17,277	550,187
Prepaid expenses	29,018	14,646
Total Current Assets	428,645	664,969
Property and Equipment, net (Note 3)	6,238,844	1,994,969
TOTAL ASSETS	\$ 6,667,489	\$ 2,659,938
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities		
Obligation under line of credit agreement (Note 6)	\$ 6,345,000	\$ 2,345,000
Due to director (Note 6)	87,302	87,302
Accounts payable	-	86,423
Accrued interest	83,756	12,608
Accrued payroll and payroll taxes	2,349	784
Total Current Liabilities	6,518,407	2,532,117
Unrestricted Net Assets	149,082	127,821
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 6,667,489	\$ 2,659,938

See Notes to Financial Statements

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WHITE HERON THEATRE COMPANY**STATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS**
For the Years Ended December 31, 2016 and 2015

	2016	2015
Support		
Contributions	<u>\$ 634,555</u>	<u>\$ 307,489</u>
Revenues		
Box office	111,354	66,261
Playbill advertising income	<u>9,925</u>	<u>-</u>
Total Revenues	<u>121,279</u>	<u>66,261</u>
Total Support and Revenues	<u>755,834</u>	<u>373,750</u>
Functional Expenses		
Program Services	579,173	255,102
General and administrative	72,500	53,503
Fundraising	<u>14,337</u>	<u>10,230</u>
Total Functional Expenses	<u>666,010</u>	<u>318,835</u>
Increase in Unrestricted Net Assets from Operating Activities	<u>89,824</u>	<u>54,915</u>
Non-Operating Activities		
Realized gain (loss) on investments	3,387	(5,469)
Interest income	1,021	700
Gain on sale of property and equipment	-	2,500
Unrealized (loss) gain on investments	(1,823)	1,555
Interest expense	<u>(71,148)</u>	<u>(12,608)</u>
Total Non-Operating Activities	<u>(68,563)</u>	<u>(13,322)</u>
Increase in Unrestricted Net Assets	21,261	41,593
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>127,821</u>	<u>86,228</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u><u>\$ 149,082</u></u>	<u><u>\$ 127,821</u></u>

See Notes to Financial Statements

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WHITE HERON THEATRE COMPANY

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Program Services	General and Administrative	Fundraising	Totals	
				2016	2015
Payroll and payroll taxes	\$ 112,566	\$ 13,243	\$ 6,622	\$ 132,431	\$ 114,544
Depreciation	100,231	8,910	2,227	111,368	5,785
Accommodations	97,163	-	-	97,163	21,126
Outside services	92,352	-	-	92,352	36,286
Production materials	90,127	-	-	90,127	27,176
Office expenses	765	27,991	1,835	30,591	13,500
Travel	25,366	2,818	-	28,184	22,709
Employee benefits	19,636	2,310	1,155	23,101	12,127
Advertising	19,552	-	-	19,552	33,218
Insurance	16,520	1,944	972	19,436	3,619
Professional fees	402	14,723	965	16,090	25,598
Postage	2,857	357	357	3,571	3,105
Bank fees	1,636	204	204	2,044	42
TOTAL FUNCTIONAL EXPENSES	\$ 579,173	\$ 72,500	\$ 14,337	\$ 666,010	\$ 318,835

See Notes to Financial Statements

WHITE HERON THEATRE COMPANY

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Increase in unrestricted net assets	\$ 21,261	\$ 41,593
Adjustments to reconcile change in unrestricted net assets to net cash from operations:		
Depreciation	111,368	5,785
(Gain) on sale of property and equipment	-	(2,500)
Noncash stock contributions	(25,000)	(50,312)
Unrealized loss (gain) on investments	1,823	(1,555)
Realized (gain) loss on investments	(3,387)	5,469
(Increase) decrease in:		
Prepaid expenses	(14,372)	(11,954)
Increase (decrease) in:		
Accounts payable	(86,423)	-
Accrued interest	71,148	12,608
Accrued payroll and payroll taxes	1,565	129
Net Cash Provided By (Used In) Operating Activities	<u>77,983</u>	<u>(737)</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	44,079	39,631
Proceeds from sale of property and equipment	-	2,500
Purchase of property and equipment	<u>(4,355,243)</u>	<u>(1,869,694)</u>
Net Cash (Used In) Investing Activities	<u>(4,311,164)</u>	<u>(1,827,563)</u>

See Notes to Financial Statements

	2016	2015
Continued		
Cash Flows From Financing Activities		
Proceeds from obligation under line of credit	<u>4,000,000</u>	2,345,000
Net Increase (Decrease) in Cash and Cash Equivalents	(233,181)	516,700
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>602,201</u>	85,501
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 369,020</u>	<u>\$ 602,201</u>

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

Cash and cash equivalents	<u>\$ 351,743</u>	\$ 52,014
Restricted cash and cash equivalents	<u>17,277</u>	550,187
Total cash and cash equivalents	<u>\$ 369,020</u>	<u>\$ 602,201</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest	\$ -	\$ -
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Noncash investing and financing transactions:

Additions to property and equipment:

Cost of property and equipment	<u>\$ 4,268,820</u>	\$ 1,889,379
Cost in accounts payable	-	(86,423)
Prior year costs in accounts payable	<u>86,423</u>	66,738

Cash paid for property and equipment	<u>\$ 4,355,243</u>	<u>\$ 1,869,694</u>
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Cost or property and equipment disposed of	\$ -	\$ 17,354
Accumulated depreciation on property and equipment disposed of	-	(17,354)
Proceeds from sale of property and equipment	<u>-</u>	<u>(2,500)</u>

(Gain) on sale of property and equipment	<u>\$ -</u>	<u>\$ (2,500)</u>
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WHITE HERON THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. Description of Organization and Summary of Significant Accounting Policies

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 temporarily or permanently restricted net assets as of December 31, 2016 and 2015.

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)

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

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, 2016 and 2015 was \$19,552 and \$33,218, respectively.

Fair Value of Financial Instruments

The carrying amount for cash and cash equivalents, restricted cash and cash equivalents, prepaid expenses, obligation under line of credit agreement, due to director, accounts payable, accrued interest and accrued payroll and payroll taxes approximates fair value due to the immediate or short-term maturity of these financial instruments. 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. As of December 31, 2016 and 2015, cash balances in excess of the federally insured limit totaled \$100,758 and \$311,400, respectively.

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.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 12, 2017, the date the financial statements were available to be issued.

2. Investments

Investments as of December 31, 2016 and 2015, consisted of the following:

	2016		2015	
	Cost	Market	Cost	Market
Mutual funds	\$ 25,000	\$ 24,637	\$ -	\$ -
Common stock	6,248	5,970	46,195	48,122
Total Investments	<u>\$ 31,248</u>	<u>\$ 30,607</u>	<u>\$ 46,195</u>	<u>\$ 48,122</u>

Unrealized losses of \$1,823 and unrealized gains of \$1,555 were recognized in the financial statements related to investments for the years ended December 31, 2016 and 2015, respectively.

WHITE HERON THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Property and Equipment

Property and equipment as of December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 6,350,212	\$ 7,775
Less: Accumulated depreciation	(111,368)	-
Property and equipment, net of depreciation	<u>6,238,844</u>	<u>7,775</u>
Construction in process	-	1,987,194
Property and equipment, net	<u>\$ 6,238,844</u>	<u>\$ 1,994,969</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$111,368 and \$5,785, respectively.

4. Fair Value Measurements

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, 2016 and 2015.

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	Investments at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 24,637	\$ -	\$ -	\$ 24,637
Common stock	5,970	-	-	5,970
TOTAL	\$ 30,607	\$ -	\$ -	\$ 30,607

The following table reflects the Organization's investments with the fair value hierarchy at December 31, 2015:

Description	Investments at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 48,122	\$ -	\$ -	\$ 48,122

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 \$3,815 and \$2,464 for the years ended December 31, 2016 and 2015, 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
		2016	2015		2016	2015		
Equity-League Pension Trust Fund	13-6696817 Plan 001	Green	Green	None	<u>\$ 3,815</u>	<u>\$ 2,464</u>	None	6/4/2017

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)

6. Related Party Transactions

Due to Director

The Organization owes funds to one of their directors and founder. The note is non-interest bearing and is due on demand.

Line of Credit Agreement and Restricted Cash

The Organization has a revolving line of credit agreement with a limited liability company, whose partial owner is also a director, which allows for borrowings up to \$6,345,000. The line bears interest at 1.50%. The Organization is to apply for financing from a commercial lender, upon grant of such financing the principal balance and interest accrued on the line of credit will become due. There are no payments required to be made until the full amount is due. The Organization had drawn \$6,345,000 and \$2,345,000 against the line as of December 31, 2016 and 2015, respectively. Accrued interest related to the line was \$83,756 and \$12,608 as of December 31, 2016 and 2015, respectively.

Draws on the line, referred to above, but not spent as of December 31, 2016 and 2015 totaled \$17,277 and \$550,187, respectively. These funds are held in a separate bank account and are 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.

7. Major Donor

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.