

**PHAMALY THEATRE
COMPANY**

**Financial Statements with
Accompanying Independent
Auditor's Report**

December 31, 2015 and 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 15



287 Century Circle, Suite 200
Louisville, Colorado 80027
[p] 303.499.7445
[f] 303.967.2373
www.flewellingcpa.com

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Phamaly Theatre Company
Denver, Colorado

We have audited the accompanying financial statements of Phamaly Theatre Company (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Phamaly Theatre Company as of December 31, 2015 and 2014, 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.

Flewelling & Mitton, PC

April 27, 2016

PHAMALY THEATRE COMPANY

Statement of Financial Position *December 31, 2015 and 2014*

ASSETS

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 77,262	\$ 111,624
Accounts receivable	75,000	17,823
Contributions receivable	4,398	10,000
Prepaid expenses	29,634	66,646
Other assets	2,350	575
Net property and equipment	38,744	25,099
Endowment investments	<u>81,939</u>	<u>85,801</u>
Total Assets.....	\$ <u>309,327</u>	\$ <u>317,568</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 5,220	\$ 4,000
Accrued expenses	2,865	15,407
Deferred revenue	8,293	48,764
Capital lease payable	5,303	7,442
Line of credit payable	<u>14,249</u>	<u>—</u>
Total Liabilities	<u>35,930</u>	<u>75,613</u>
Commitments and Contingencies	<u>—</u>	<u>—</u>
Net Assets		
Unrestricted	69,281	104,146
Temporarily restricted	116,331	50,411
Permanently restricted	<u>87,785</u>	<u>87,398</u>
Total Net Assets	<u>273,397</u>	<u>241,955</u>
Total Liabilities and Net Assets	\$ <u>309,327</u>	\$ <u>317,568</u>

See accompanying *Notes to Financial Statements*

PHAMALY THEATRE COMPANY

Statement of Activities For the Years Ended December 31, 2015 and 2014

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and Other Support					
Program fees	\$ 257,938	\$ —	\$ —	\$ 257,938	\$ 197,390
Foundation grants	127,155	81,750	—	208,905	74,983
Special events income	63,077	—	—	63,077	70,776
Less: costs of direct benefits to donors	(33,425)	—	—	(33,425)	(43,386)
Contributions	58,717	4,398	387	63,502	97,868
Corporate grants	2,464	—	—	2,464	17,421
Investment return	(1,875)	—	—	(1,875)	875
Scientific Cultural Facilities					
District grants	120,212	30,183	—	150,395	122,076
Government grants	28,500	—	—	28,500	20,000
In-kind contributions	63,629	—	—	63,629	51,266
Net assets released from restriction	<u>50,411</u>	<u>(50,411)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Revenue and Other Support.....	<u>736,803</u>	<u>65,920</u>	<u>387</u>	<u>803,110</u>	<u>609,269</u>
Expenses					
Program services	676,328	—	—	676,328	496,796
Supporting services:					
Management and general	30,386	—	—	30,386	16,471
Fund-raising	<u>64,954</u>	<u>—</u>	<u>—</u>	<u>64,954</u>	<u>67,660</u>
Total Expenses	<u>771,668</u>	<u>—</u>	<u>—</u>	<u>771,668</u>	<u>580,927</u>
Increase (Decrease) in Net Assets	(34,865)	65,920	387	31,442	28,342
Net Assets at Beginning of Year	<u>104,146</u>	<u>50,411</u>	<u>87,398</u>	<u>241,955</u>	<u>213,613</u>
Net Assets at End of Year	<u>\$ 69,281</u>	<u>\$116,331</u>	<u>\$ 87,785</u>	<u>\$ 273,397</u>	<u>\$ 241,955</u>

See accompanying Notes to Financial Statements

PHAMALY THEATRE COMPANY

Statement of Functional Expenses For the Year Ended December 31, 2015 and 2014

		Supporting Services			
	Program Services	Management and General	Fund- Raising	2015 Total	2014 Total
Salaries	\$ 158,157	\$ 6,777	\$ 37,829	\$ 202,763	\$ 183,809
Payroll taxes and benefits	18,349	780	4,350	23,479	18,232
Facilities	134,185	1,755	4,342	140,282	127,182
Production staff	167,940	—	—	167,940	135,768
Staging expenses	19,607	—	—	19,607	16,492
Advertising and promotion	43,012	—	—	43,012	22,231
Insurance	11,301	1,291	2,267	14,859	8,994
Professional services	—	6,769	—	6,769	6,004
Box office fees	4,314	—	—	4,314	5,315
Contract publicist	5,200	—	—	5,200	4,800
Printing	9,133	790	—	9,923	6,980
Special needs	13,345	—	—	13,345	1,981
Merchant bankcard fees	1,918	630	916	3,464	4,473
Development	—	—	10,985	10,985	14,182
Dues	—	1,675	—	1,675	914
Telephone	2,675	114	634	3,423	1,452
Travel	31	—	—	31	659
Small equipment	794	397	397	1,588	1,172
Office supplies	1,437	719	719	2,875	2,359
Staff and board development	1,804	2,357	770	4,931	4,810
Postage and shipping	1,286	427	1,496	3,209	1,300
Production & licensing expense	32,171	—	—	32,171	3,302
Interest expense	500	167	—	667	520
All other	44,165	5,147	249	49,561	3,272
	<u>671,324</u>	<u>29,795</u>	<u>64,954</u>	<u>766,073</u>	<u>576,203</u>
Depreciation	<u>5,004</u>	<u>591</u>	<u>—</u>	<u>5,595</u>	<u>4,724</u>
Total.....	<u>\$ 676,328</u>	<u>\$ 30,386</u>	<u>\$ 64,954</u>	<u>\$ 771,668</u>	<u>\$ 580,927</u>

See accompanying Notes to Financial Statements

PHAMALY THEATRE COMPANY

Statement of Cash Flows For the Year Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 31,442	\$ 27,079
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
(Gain) loss on investments	3,668	(193)
Depreciation expense	5,595	4,609
Donation of equipment	(13,200)	—
Changes in operating assets and liabilities:		
(Increase) decrease in accounts and contributions receivables	(51,575)	17,568
(Increase) decrease in prepaid expenses	37,012	(37,844)
(Increase) decrease in other assets	(1,775)	(575)
Increase (decrease) in accounts payable	1,220	1,202
Increase (decrease) in accrued expenses	(12,542)	2,412
Increase (decrease) in deferred revenue	<u>40,471</u>	<u>37,876</u>
Net Cash Provided (Used) by Operating Activities	(40,626)	52,134
Cash Flows from Investing Activities		
Purchases of property and equipment	(6,040)	(10,757)
Net change in investment	<u>194</u>	<u>34,608</u>
Net Cash Used by Investing Activities	<u>(5,846)</u>	<u>(45,365)</u>
Cash Flows from Financing Activities		
Payments on capital lease liability	(2,139)	(2,096)
Proceeds from line of credit	<u>14,249</u>	<u>—</u>
Net Cash Provided (Used) by Financing Activities	<u>12,110</u>	<u>(2,096)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(34,362)	4,673
Cash and Cash Equivalents at Beginning of Year	<u>111,624</u>	<u>106,951</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 77,262</u></u>	<u><u>\$ 111,624</u></u>

See accompanying Notes to Financial Statements

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

Phamaly Theatre Company (the Organization) provides professional theatre opportunities and artistic development for performers with disabilities and promotes the inclusion of people with disabilities in the performing arts community.

Name Change

On March 30, 2012, the Organization formally changed its legal name from Physically Handicapped Amateur Musical Actors League, Inc. to Phamaly Theatre Company.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

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.

Cash Equivalents

The Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or fewer to be cash and cash equivalents.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets, depending on the absence or existence and nature of any donor restrictions.

Contributions to the Organization which are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Restrictions on Net Assets

Unrestricted net assets can generally be used in a manner to report the Organization's purpose and general activities.

Temporarily restricted net assets consist of contributions and other inflows that have donor-imposed stipulations limiting their use. These restrictions expire with either the passage of time or by actions of the Organization.

Permanently restricted net assets consist of endowment funds received from donors to be held indefinitely. The income from these assets is to be used in a manner designated by the donors.

Estimates

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

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization has received an Internal Revenue Service exemption from federal income taxes under Section 501(c)(3). Accordingly, no provision or liability for income taxes has been provided in the accompanying financial statements. It is not classified as a private foundation.

The Organization recognizes the financial statement effects from a tax position only if it is more likely than not that the tax position will be sustained by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The assessment of the technical merits of a tax position is a matter of judgment. The Organization believes that all its tax positions are more likely than not to be sustained upon examination.

The Organization files Form 990 in the U.S. federal jurisdiction. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2012.

Functional Reporting of Expenses

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

In-Kind Contributions

Donated materials, equipment and services are reflected as contributions at their estimated values at date of receipt. During the years ended December 31, 2015 and 2014, in-kind contributions were received in the amounts of \$63,629 and \$51,266, respectively, mostly from the Denver Center for the Performing Arts for performance, production and rehearsal space.

In addition, numerous volunteers have donated significant amounts of time to the Organization's program services. These services did not meet the requirement for recognition in the financial statements and have not been recorded.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of customers to meet their obligations. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The balance in allowance for doubtful accounts at December 31, 2015 and 2014 was \$0.

Property and Equipment

Property and equipment are recorded at cost, except for contributed assets which are stated at estimated fair value at the date of contribution. Depreciation expense is computed on the straight-line method over the estimated useful lives of the assets, which is generally five years. Expenditures for renewals or betterments of \$1,000 or more that materially extend the useful lives of assets or increase their productivity are capitalized at cost. The costs and related allowances for depreciation of assets retired or otherwise disposed of are eliminated from the accounts. The resulting gain or loss is included in the determination of increase or decrease in unrestricted net assets.

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summarized Prior-Year Information

The amounts shown for the year ended December 31, 2014 in the accompanying financial statements are included to provide a basis for comparison with 2015 and present summarized totals only. Accordingly, the 2014 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Fair Value of Financial Instruments

The Organization discloses fair value information about financial instruments when it is practicable to estimate that value. The carrying value of the Organization's cash, accounts and contributions receivable, prepaid expenses and deferred revenue approximate their estimated fair values due to their short-term maturities.

Concentration of Credit Risk

Financial institutions that potentially subject the Organization to concentrations of credit risk consists principally of cash and cash equivalents and investments.

The Organization maintains its cash balances at one bank in Denver, Colorado. As of December 31, 2015 and 2014, respectively, the Organization had \$0 of cash or cash equivalents in the financial institutions in excess of amounts insured by agencies of the U.S. Government.

In addition, the Organization's investments, worth \$81,939 and \$85,801 at December 31, 2015 and 2014, were held at the Community First Foundation and were uninsured.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2015	2014
Office equipment	\$ 13,189	\$ 13,189
Production and stage equipment	25,721	19,681
Vehicles	13,200	—
Less: accumulated depreciation	(13,366)	(7,771)
Net Property and Equipment	\$ 38,744	\$ 25,099

Depreciation expense for the year was \$5,595 and \$4,724 for 2015 and 2014, respectively.

NOTE 3: RELATED PARTY TRANSACTIONS

Board members are not paid for their board functions; however, some board members are also performers and receive stipends.

Phamaly paid \$11,320 and \$6,150 in fees to related parties in the years ended December 31, 2015 and 2014, respectively.

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 4: ENDOWMENT INVESTMENTS

The Organization's endowment investments are stated at fair value. Investments are held in a fund at the Community First Foundation. The endowment fund agreement provides that the Community First Foundation shall credit the Organization periodically with earnings from the funds. The Foundation shall distribute the earnings of the endowment fund to the Organization, no more frequently than annually, as the Organization may direct, not to exceed 5% of the average fair market value of the fund. Earnings of the fund are to be spent on the Organization's operations.

The funds consist of the following types of investments at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 2,786	\$ 3,166
Fixed income bond mutual funds	33,021	30,039
Stock equities	46,132	52,596
Total	<u>\$ 81,939</u>	<u>\$ 85,801</u>

The components of investment return shown on the Statement of Activities were as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 1,793	\$ 682
Net realized and unrealized gains (losses)	(3,668)	193
Total	<u>\$(1,875)</u>	<u>\$ 875</u>

NOTE 5: LEASE COMMITMENTS

During the year 2015, the Organization moved its office and entered into a new lease for office space for \$2,350 per month through September 2017. The previous lease for office space was for \$575 per month on a month to month basis.

Total lease expense for the year ended December 31, 2015 and 2014 was \$21,130 and \$6,900, respectively.

Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 28,200
2017	21,150
Thereafter	—
Total	<u>\$ 49,350</u>

NOTE 6: CONCENTRATIONS OF REVENUES

The Organization received the following revenues from significant grants and contracts during the year ended December 31, 2015 and 2014, respectively:

	<u>2015</u>		<u>2014</u>
	<u>Amount</u>	<u>% of Total Revenues</u>	<u>Amount</u>
Scientific Cultural Facilities District	\$ 150,395	19%	\$ 122,076
			20%

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 7: CAPITAL LEASE

The Organization is the lessee of office equipment under a capital lease which expires in February 2018. The asset and liability under the capital lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is amortized over its estimated useful life of 5 years, and is being depreciated beginning in 2013.

Following is a summary of property held under capital leases at December 31, 2015 and 2014:

	2015	2014
Office equipment	\$ 11,811	\$ 11,811
Accumulated amortization	(7,087)	(4,725)
Net Book Value	<u>\$ 4,724</u>	<u>\$ 7,086</u>

Minimum future lease payments under the capital lease as of December 31, 2015, were as follows:

Year	Amount
2016	\$ 2,616
2017	2,616
2018	<u>436</u>
Net minimum lease payments	5,668
Amount representing interest	(365)
Present Value of Net Minimum Payments	<u>\$ 5,303</u>

The interest rate used on the capitalized lease was 6.0% and was imputed based on the lower of the Organization's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

NOTE 8: RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Future year productions	\$ 36,933	\$ 50,411
Operations	<u>79,398</u>	<u>—</u>
Total	<u>\$ 116,331</u>	<u>\$ 50,411</u>

Permanently restricted net assets are available for the following purpose:

	2015	2014
Permanent endowment established by donors	\$ 87,785	\$ 87,398
Total	<u>\$ 87,785</u>	<u>\$ 87,398</u>

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 9: FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at December 31, 2015 and 2014 are as follows:

<u>Fair Value Measurements at Reporting Date Using:</u>				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
December 31, 2015:				
Investments:				
Money market funds	\$ 2,786	\$ 2,786	\$ —	\$ —
Fixed income bond mutual funds	33,021	33,021	—	—
Stock equities	46,132	46,132	—	—
Total	\$ 81,939	\$ 81,939	\$ —	\$ —
December 31, 2014:				
Investments:				
Money market funds	\$ 3,166	\$ 3,166	\$ —	\$ —
Fixed income bond mutual funds	30,039	30,039	—	—
Stock equities	52,596	52,596	—	—
Total	\$ 85,801	\$ 85,801	\$ —	\$ —

All assets have been valued using a market approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. There were no changes in the valuation techniques during the current year.

There are no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

NOTE 10: CASH FLOW INFORMATION

The Organization had noncash financing transactions relating to donated equipment of \$13,200 and \$0 in 2015 and 2014, respectively. Interest paid in 2015 was \$262 and \$0 in 2014.

NOTE 11: ENDOWMENT

The Organization's endowment consists of a donor-restricted fund established for general operating support of Phamaly. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 11: ENDOWMENT (continued)

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Colorado UPMIFA. In accordance with Colorado UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a) The duration and preservation of the fund
- b) The purposes of Phamaly and the donor-restricted endowment fund.
- c) General economic conditions
- d) The possible effect of inflation and deflation
- e) The expected total return from income and the appreciation of investments.
- f) Other resources of the Organization
- g) The investment policies of the Organization

Endowment Net Asset Composition by Type of Fund as of December 31, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2015:				
Donor-restricted endowment funds:				
Community First Foundation	\$ —	\$ —	\$ 87,785	\$ 87,785
Board-designated endowment funds	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Funds.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 87,785</u>	<u>\$ 87,785</u>
December 31, 2014:				
Donor-restricted endowment funds:				
Community First Foundation	\$ —	\$ —	\$ 87,398	\$ 87,398
Board-designated endowment funds	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Funds.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 87,398</u>	<u>\$ 87,398</u>

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 11: ENDOWMENT (continued)

Changes in Endowment Net Assets for the Years ended December 31, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	\$ —	\$ 87,398	\$ 87,398
Investment return:				
Investment income (net of expenses)	—	913	—	913
Net realized and unrealized gains (losses)	—	(913)	—	(913)
Total Investment Return	—	—	—	—
Contributions	—	—	387	387
Appropriation of endowment assets for expenditure	—	—	—	—
Endowment Net Assets, End of Year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 87,785</u>	<u>\$ 87,785</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)

	<u>Dec. 31, 2015</u>	<u>Dec. 31, 2014</u>
Permanently Restricted Net Assets		
(1) The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by Colorado UPMIFA	\$ —	\$ 87,398
Total Endowment Funds Classified as Permanently Restricted Net Assets	<u>\$ —</u>	<u>\$ 87,398</u>
Temporarily Restricted Net Assets		
(1) Term endowment funds	\$ —	\$ —
(2) The portion of perpetual endowment funds subject to a time restriction under Colorado UPMIFA:		
Without purpose restrictions	—	—
With purpose restrictions	—	—
Total Endowment Funds Classified as Temporarily Restricted Net Assets	<u>\$ —</u>	<u>\$ —</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Colorado UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$5,846 as of the year ended December 31, 2015. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appreciation for certain programs that were deemed prudent by the Board of Directors. There were no such deficiencies as of December 2014.

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 11: **ENDOWMENT** *(continued)*

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. The endowment assets are invested in a manner that is intended to produce results that meet or exceed the following benchmarks over the course of a market cycle, generally considered to be three to seven years.

Evaluation benchmark: Total return to exceed the performance of a blended index based upon the strategic asset allocation of the Fund to various broad asset classes. Specifically, the index will be a weighted index comprised of:

- 45% Russell 3000
- 10% EAFE
- 40% Lehman Intermediate Govt. Corp
- 5% Cash (90-day Tbills)

The investment goals above are the objectives of the aggregate Endowment, and are not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, selected and agreed upon by the Committee that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.
3. The overall return objective of the endowment portfolio is an absolute return of 7-8% over a ten-year time horizon.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Organization 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 Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy of the Organization's Permanently-Restricted Endowment

The Organization has a policy of appropriating for distribution each year up to 5% of the average of the net fair market value of the assets of the Fund on the last business day of each of the three calendar years preceding the date of distribution (or such lesser number of calendar years as there may be between the date of the transfer of the initial contribution to the Foundation and date of distribution).

PHAMALY THEATRE COMPANY

Notes to Financial Statements December 31, 2015 and 2014

NOTE 12: LINE OF CREDIT

On July 14, 2015, the Organization negotiated with a bank to obtain a line of credit for a maximum of \$15,000, with an interest rate of 10.25%. The line of credit is unsecured. As of December 31, 2015, the current balance was \$14,248.

NOTE 13: SUBSEQUENT EVENTS

Subsequent events were evaluated through April 27, 2016, which was the date the financial statements were available to be issued.