

HARLEQUIN PRODUCTIONS  
FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

DNM & Associates, P.S.  
Certified Public Accountants  
Olympia, Washington

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Harlequin Productions  
Olympia, Washington

We have audited the accompanying financial statements of Harlequin Productions (the Organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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 audit. We conducted our audit 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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harlequin Productions as of December 31, 2019, and its activities, functional expenses, and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

*DNM + Associates, P.S.*

Olympia, Washington

June 29, 2020

**HARLEQUIN PRODUCTIONS**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**

<b>ASSETS</b>	<b><u>2019</u></b>
<b>CURRENT ASSETS</b>	
Cash	\$ 14,481
Accounts receivable	7,895
Inventory	3,000
Prepaid expenses	13,595
Total current assets	<u>38,971</u>
PROPERTY AND EQUIPMENT, NET	<u>1,288,631</u>
<b>OTHER ASSETS</b>	
Security deposit	800
Salary bond	2,525
Total other assets	<u>3,325</u>
Total Assets	<u><u>\$ 1,330,927</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 13,380
Payroll taxes payable	7,750
Excise tax payable	1,340
Accrued payroll	19,907
Accrued interest	471
Advance ticket, subscription, and advertising	246,160
Gift certificate liability	14,174
Notes payable to related parties	45,000
Current maturities of long-term debt	12,524
Total current liabilities	<u>360,706</u>
<b>LONG-TERM LIABILITIES</b>	
Line of credit	93,020
Long-term debt, net of current maturities	10,068
Total long-term liabilities	<u>103,088</u>
<b>NET ASSETS</b>	
Net assets without donor restrictions	<u>867,133</u>
Total Liabilities and Net Assets	<u><u>\$ 1,330,927</u></u>

*See accompanying notes and independent auditor's report.*

**HARLEQUIN PRODUCTIONS  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions
<b>REVENUES AND SUPPORT</b>	
Ticket and subscription sales	\$ 448,387
Contributions and fundraising	182,710
Barter income	111,411
Box office and concessions	48,846
Sponsorships and advertising	46,807
Special events	41,847
In-kind contributions	13,613
Education programs revenue	11,440
Rentals and other productions	8,338
Interest income	5
	5
<b>TOTAL REVENUES AND SUPPORT</b>	913,404
<b>EXPENSES</b>	
Program services	946,542
Supporting services:	
Management and general	104,616
Fundraising	91,756
	91,756
<b>TOTAL EXPENSES</b>	1,142,914
<b>CHANGE IN NET ASSETS</b>	(229,510)
<b>NET ASSETS, January 1</b>	1,096,643
<b>NET ASSETS, December 31</b>	\$ 867,133

*See accompanying notes and independent auditor's report.*

**HARLEQUIN PRODUCTIONS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2019**

	Supporting Services			Total Functional Expenses
	Program Services	Management and General	Fundraising	
Salaries and wages	\$ 262,902	\$ 75,115	\$ 37,557	\$ 375,574
Production personnel	212,140	-	-	212,140
Barter expense	111,411	-	-	111,411
Advertising and promotion	39,736	-	9,934	49,670
Payroll taxes	33,852	9,672	4,836	48,360
Show production expense	42,391	-	-	42,391
Depreciation	34,554	1,920	1,920	38,394
Employee benefits	20,259	5,788	2,894	28,941
Merchant fees	22,965	-	5,741	28,706
Rent	28,114	-	-	28,114
Royalties	25,443	-	-	25,443
Utilities	20,628	1,146	1,146	22,920
Building maintenance	16,422	912	912	18,246
Cost of sales	17,146	-	-	17,146
In-kind expense	13,613	-	-	13,613
Interest expense	6,512	2,171	2,171	10,854
General production expense	9,905	-	-	9,905
Special events	-	-	9,256	9,256
Insurance	5,368	1,789	1,789	8,946
Bank fees	4,854	1,618	1,618	8,090
Printing and reproduction	4,109	1,370	1,370	6,849
Fundraising	-	-	6,222	6,222
Travel	3,908	-	-	3,908
Dues and memberships	2,336	779	779	3,894
Employee development	1,378	459	459	2,296
Miscellaneous	1,360	453	453	2,266
Equipment rentals	2,084	-	-	2,084
Postage and delivery	1,246	415	415	2,076
Capital campaign	-	-	2,000	2,000
Office expense	854	284	284	1,422
Education and special programs	1,052	-	-	1,052
Bad debts	-	725	-	725
	\$ 946,542	\$ 104,616	\$ 91,756	\$ 1,142,914

See accompanying notes and independent auditor's report.

**HARLEQUIN PRODUCTIONS  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2019**

	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (229,510)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	38,394
(Increase) Decrease in:	
Accounts receivable	3,910
Inventory	(3,000)
Prepaid expenses	(10,395)
Salary bond	(2,525)
Increase (Decrease) in:	
Accounts payable	44,524
Payroll taxes payable	2,629
Excise tax payable	309
Accrued payroll	(1,517)
Accrued interest	470
Advance ticket, subscription, and advertising	64,809
Gift certificate liability	2,007
	<u>(89,895)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net proceeds from line of credit	93,612
Payments on note payable	(11,559)
	<u>82,053</u>
<b>NET CHANGE IN CASH</b>	<b>(7,842)</b>
Cash, Beginning of Year	<u>22,323</u>
Cash, End of Year	<u><u>\$ 14,481</u></u>

**Supplemental disclosure of cash flow information:**

The Organization paid interest totaling \$10,383 during the year ended December 31, 2019.

**Supplemental disclosure of noncash financing activities:**

During the year ended December 31, 2019, the related parties paid \$45,000 of operating expenses on behalf of the Organization and the Organization incurred notes payable to related parties for the same amount.

*See accompanying notes and independent auditor's report.*



**HARLEQUIN PRODUCTIONS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Organization

Harlequin Productions (the Organization) is a not-for-profit organization incorporated under the laws of the State of Washington in 1988 for the purpose of promoting the study, appreciation, and advancement of theater and the performing arts among the general public. By creating high quality work and encouraging positive change, the Organization seeks to invigorate, educate, and empower community to feel more, think more, play more, and judge less, through the mirror of real live theatre. The majority of the Organization's income is received from sales of tickets and subscriptions, contributions, and fundraising activities.

Program Services

The Organization's primary program is producing passionate, artist-driven work that challenges both the artist to produce, and the audience to benefit, from a wide variety of plays and concerts that are inherently theatrical, texturally rich, and visually arresting.

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. All contributions are considered available for unrestricted use, unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulation time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of financial position as net assets released from restrictions.

The Organization had no net assets with donor restrictions at December 31, 2019.

**HARLEQUIN PRODUCTIONS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property and Equipment

Property and equipment are carried at cost. When retired or otherwise disposed of, the related carrying value and accumulated depreciation are removed from the respective accounts and the difference, less any amount realized from disposition, is reflected in earnings. Maintenance and repairs are charged to operating expenses. Costs of significant improvements and renewals are capitalized.

Depreciation is provided using accelerated and straight-line methods over the estimated useful lives of the assets. Depreciation expense was \$38,394 for the year ended December 31, 2019.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Revenue Recognition

Ticket and subscription income - The Organization sells tickets for its productions to the general public. The public may purchase tickets for a full season, for several events or for a single event. Ticket and subscription income are recognized when the performances occur. Subscription payments received in advance of a production season, unless its intended to fund pre-production, are reported as advance payments until the related season has begun.

Contributions and grants - Contributions and grants from individuals, foundations, corporations, and governmental agencies are recorded when received. Unconditional promises to give, including pledges, are recorded at net realizable value, and are recognized as when the pledges are made to the Organization.

Special events income - The Organization periodically holds special events as fundraisers. Funds raised are recognized as increases in net assets without donor restrictions.

**HARLEQUIN PRODUCTIONS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue Recognition (Continued)

Education programs revenue - Tuition is recognized in the period in which the services are provided. Amounts received in advance are shown as customer deposits.

Barter income – The Organization provides show tickets and sponsor advertising in exchange for show advertising and other services. Barter income and the related expenses are recognized concurrently when performances occur.

In-kind contributions - Donated materials are valued at amounts normally charged or paid for similar materials. These materials are included in the statements as both support and expenses.

Contributed Services

The value of contributed services meeting the requirements for recognition in the financial statements occurring during the year ended December 31, 2019, was not material and has not been recorded.

Accounts Receivable

The Organization provides services and receives support through sponsorship and advertising contracts. Accounts receivable are unsecured, and do not bear interest. Management regularly monitors client accounts to mitigate risk of loss from uncollectible accounts. Accounts are written off as uncollectible when management determines that collection of the balance is remote.

In evaluating the collectibility of accounts receivable, management analyzes past results for the purpose of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for bad debts. Data is regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. No allowance for doubtful accounts was considered necessary at December 31, 2019.

Advance Receipts and Production Costs

Advanced ticket sales and the related production costs are deferred and recognized as income and expense as performances occur.

Advertising costs

The Organization expenses advertising costs as they are incurred. The Organization expensed advertising costs of \$49,670 for the year ended December 31, 2019.

**HARLEQUIN PRODUCTIONS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Functional expense allocation

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation, management expenses, and multiple services used to support programs, management and fundraising functions. Depreciation is allocated based on estimated square footage, management wages are allocated based on estimates of time and effort, other costs are allocated based on estimates of service used by program or supporting services.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02 *Leases*. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2020, with early adoption permitted.

Management has evaluated the potential effects of the ASU 2016-02 and has determined that no significant effects are expected to occur from adoption of the standard.

Federal Income Taxes

The Organization is an exempt corporation under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954. The Organization follows FASB ASC Section 740, which clarifies the accounting for uncertainty in income taxes. Management has evaluated the Organization's tax positions and has concluded that the Organization has taken no uncertain tax positions that require adjustments to the financial statements, or that call into question the Organization's tax status.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**HARLEQUIN PRODUCTIONS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(CONTINUED)

Subsequent Events

Management has evaluated subsequent events through June 29, 2020, the date on which the financial statements were available to be issued.

The COVID-19 outbreak in the United States has caused disruptions of the Organization's programs due to mandated and voluntary closings of Washington State businesses. While the disruption is expected to be temporary, there is uncertainty regarding its duration. Potential financial impacts on the Organization's financial position are unknown at this time.

**NOTE 2 GOING CONCERN**

The Organization's operating results and financial position at December 31, 2019, indicated substantial doubt about the Organization's ability to continue as a going concern. Management has subsequently executed several strategies to improve the Organization's operating results and liquidity. Management believes these strategies have made it more likely than not that the Organization will continue as a going concern.

**NOTE 3 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization had \$22,376 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures.

The financial assets consisted of the following at December 31, 2019:

Cash and cash equivalents	\$ 14,481
Accounts receivable	<u>7,895</u>
	<u><u>\$ 22,376</u></u>

None of these financial assets were subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

**HARLEQUIN PRODUCTIONS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2019:

Building	\$	957,411
Improvements		619,357
Equipment		115,409
		1,692,177
Less accumulated depreciation		(739,934)
		952,243
Land		336,388
	\$	1,288,631

**NOTE 5 SALARY BOND**

The Organization was required to pay and maintain a bond of \$2,525 in accordance with the terms of its agreement with Actors' Equity Association.

**NOTE 6 LINE OF CREDIT AND NOTE PAYABLE**

The Organization maintains a \$100,000 revolving line of credit with a financing company. The line was converted to a long-term loan, prior to its maturity, in May 2020. The line calls for monthly payments of accrued interest due. The loan is secured by substantially all of the assets of the Organization. The balance due on the line of credit was \$93,612 at December 31, 2019.

The Organization has the loan from a commercial lender with a balance of \$22,000 at December 31, 2019. The note payable is due in monthly installments \$1,082, including interest at 6%. The note matures on November 1, 2021. The loan is secured by substantially all of the assets of the Organization and is subordinated to the line of credit described above.

Future maturities of note payable and the line of credit at December 31, 2019, are:

2020	\$	12,524
2021		103,088
		\$ 115,612
		115,612

**HARLEQUIN PRODUCTIONS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 7** NOTES PAYABLE TO RELATED PARTIES

The Organization entered into loan agreements with two employees in 2019. The outstanding balance of the loans was \$45,000 at December 31, 2019. The loans bear interest at 6% which is payable beginning January 1, 2020. Loans are due on demand and are expected to be repaid during 2020. The loans are secured by substantially all of the assets of the Organization and is subordinated to the line of credit described in Note 6.

**NOTE 8** CONCENTRATIONS OF RISK

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Management does not believe that the Organization is exposed to any significant credit risk on cash.

**NOTE 9** COMMITMENTS

The Organization rents facilities used for costume shop and scene shop on a month-to-month basis. Monthly rental payments were \$2,300 for both shops at December 31, 2019. Rent expense was \$28,114 for the year ended December 31, 2019.

The Organization entered into agreement with the Actors' Equity Association, effective April 8, 2019, which details wage and benefit rates and other requirements. Under this agreement, the Organization has an obligation to pay a pension contribution of 8.0% of negotiated salaries to Actors' Equity Association union members.