Financial Statements and
Independent Auditors' Report

LAGUNA PLAYHOUSE

For the Year Ended June 30, 2014

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THE LAGUNA PLAYHOUSE

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HASKELL & WHITE LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Laguna Playhouse

We have audited the accompanying financial statements of The Laguna Playhouse (the "Playhouse"), which comprise the statement of financial position as of June 30, 2014, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Playhouse as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Playhouse's 2013 financial statements, and our report dated September 23, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Haskell & White LLP

HASKELL & WHITE LLP

October 8, 2014
Irvine, California

THE LAGUNA PLAYHOUSE

Statement of Financial Position
As of June 30, 2014
(With summarized financial information as of June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total 2014**	Total 2013
Assets					
Cash and cash equivalents	$ 1,099,963	$ 49,315	$ 57,390	**$ 1,206,668**	$ 1,453,692
Prepaid expenses	238,571	-	-	**238,571**	324,702
Investments (Note 7)	29,998	-	-	**29,998**	29,998
Contributions receivable (Note 3)	54,850	321,611	47,517	**423,978**	284,972
Other receivables	6,304	-	-	**6,304**	22,631
Property and equipment, net (Note 4)	480,416	-	-	**480,416**	560,189
Other assets	3,472	-	-	**3,472**	3,472
Total assets	$ 1,913,574	$ 370,926	$ 104,907	**$ 2,389,407**	$ 2,679,656
Liabilities					
Accounts payable and accrued expenses	$ 189,970	$ -	$ -	**$ 189,970**	$ 288,338
Deferred revenue - tickets (Note 6)	970,501	-	-	**970,501**	1,116,249
Notes payable (Note 5)	187,835	-	-	**187,835**	194,842
Total liabilities	1,348,306	-	-	**1,348,306**	1,599,429
Commitments and contingencies (Note 7)					
Net assets (Note 2)					
Unrestricted	565,268	-	-	**565,268**	696,180
Temporarily restricted	-	370,926	-	**370,926**	334,727
Permanently restricted	-	-	104,907	**104,907**	49,320
Total net assets	565,268	370,926	104,907	**1,041,101**	1,080,227
Total liabilities and net assets	$ 1,913,574	$ 370,926	$ 104,907	**$ 2,389,407**	$ 2,679,656

See accompanying notes to financial statements and independent auditors’ report.

THE LAGUNA PLAYHOUSE

Statement of Activities
For The Year Ended June 30, 2014
(With summarized financial information for the year ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total 2014**	Total 2013
Revenue and support					
Admissions	$ 3,054,997	$ -	$ -	**$ 3,054,997**	$ 2,604,008
Contributions	693,373	77,510	57,342	**828,225**	692,864
Special events	248,294	-	-	**248,294**	175,992
Touring	6,000	-	-	**6,000**	5,000
Concessions	177,338	-	-	**177,338**	152,030
Tuition	44,654	-	-	**44,654**	48,958
Interest	640	507	-	**1,147**	1,616
Donated services	193,029	-	-	**193,029**	206,831
Rental and other income	44,099	-	-	**44,099**	58,944
Total revenue	4,462,424	78,017	57,342	**4,597,783**	3,946,243
Net assets released from restriction	43,573	(41,818)	(1,755)	**-**	-
Total revenue and support	4,505,997	36,199	55,587	**4,597,783**	3,946,243
Expenses					
Program services:					
Production costs	2,257,468	-	-	**2,257,468**	2,193,890
Education	213,824	-	-	**213,824**	247,401
Supporting activities:					
General and administrative	467,970	-	-	**467,970**	442,369
Marketing and advertising	1,048,405	-	-	**1,048,405**	1,034,145
Fundraising	649,242	-	-	**649,242**	682,771
Total expenses	4,636,909	-	-	**4,636,909**	4,600,576
Change in net assets	(130,912)	36,199	55,587	**(39,126)**	(654,333)
Net assets, beginning of year	696,180	334,727	49,320	**1,080,227**	1,734,560
Net assets, end of year	$ 565,268	$ 370,926	$ 104,907	**$ 1,041,101**	$ 1,080,227

See accompanying notes to financial statements and independent auditors' report.

THE LAGUNA PLAYHOUSE

Statement of Functional Expenses
For the Year Ended June 30, 2014
(With summarized financial information for the year ended June 30, 2013)

	Program Services		Supporting Activities				
	Production Costs	Education	General and Administrative	Marketing and Advertising	Fund-Raising	**2014 Total**	2013 Total
Salaries, payroll taxes and employee benefits	$ 1,043,528	$ 129,692	$ 337,406	$ 289,701	$ 297,338	$ **2,097,665**	$ 2,252,732
Printing, publications and advertising	345	-	210	419,134	11,890	**431,579**	399,002
Occupancy	51,667	7,523	15,577	-	2,060	**76,827**	62,194
Depreciaton and amortization	60,004	20,448	8,179	-	-	**88,631**	114,375
Costumes, scenery and special effects	105,123	1,881	424	-	1,955	**109,383**	108,073
Theatrical fees, licensing and royalties	629,870	9,133	-	-	240	**639,243**	400,834
Repair and maintenance	62,118	14,771	5,117	27,014	2,193	**111,213**	107,190
In-kind goods and services	28,259	1,996	21,481	-	141,293	**193,029**	206,831
Outsourced telemarketing and telefunding	-	-	-	176,256	10,212	**186,468**	192,287
Consultants	-	-	6,056	59,466	50,490	**116,012**	135,982
Professional fees	-	-	42,270	5,939	-	**48,209**	48,144
Utilities	57,035	12,365	3,091	-	-	**72,491**	65,554
Credit card fees, bank charges and interest expense	79,674	1,372	-	-	-	**81,046**	88,253
Insurance	30,200	6,471	2,157	2,157	2,157	**43,142**	37,259
Telephone	6,596	1,199	4,197	-	-	**11,992**	16,865
Supplies	6,879	2,316	3,454	14,663	7,351	**34,663**	41,412
Postage and shipping	442	1,799	2,516	31,077	5,747	**41,581**	44,816
Taxes and licenses	14,079	-	2,904	-	-	**16,983**	17,144
Membership dues and conferences	16,065	208	6,111	17,109	12,617	**52,110**	42,712
Cast travel, meals and housing	26,567	1,847	-	2,586	1,209	**32,209**	54,925
Fund-raising, Gala and special events	-	-	-	-	99,934	**99,934**	111,483
Concessions and other	39,017	803	6,820	3,303	2,556	**52,499**	52,509
	$ 2,257,468	$ 213,824	$ 467,970	$ 1,048,405	$ 649,242	$ **4,636,909**	$ 4,600,576

See accompanying notes to financial statements and independent auditors’ report.

THE LAGUNA PLAYHOUSE

Statement of Cash Flows
For The Year Ended June 30, 2014
(With summarized financial information for the year ended June 30, 2013)

	2014	2013
Cash flows from operating activities		
Decrease in net assets	**$ (39,126)**	$ (654,333)
Adjustments to reconcile decrease in net assets to net cash used by operating activities		
Depreciation and amortization	**88,631**	114,375
Changes in assets and liabilities		
Prepaid expenses	**86,131**	(29,780)
Contributions receivable	**(139,006)**	210,443
Other receivables	**16,327**	3,695
Accounts payable and accrued expenses	**(98,368)**	92,411
Deferred revenue - tickets	**(145,748)**	6,047
Net cash used by operating activities	**(231,159)**	(257,142)
Cash flows from investing activities		
Purchases of property and equipment	**(8,858)**	(32,142)
Net cash used by investing activities	**(8,858)**	(32,142)
Cash flows from financing activities		
Repayment of notes payable	**(7,007)**	(6,564)
Net cash used by financing activities	**(7,007)**	(6,564)
Net decrease in cash and cash equivalents	**(247,024)**	(295,848)
Cash and cash equivalents - beginning of year	**1,453,692**	1,749,540
Cash and cash equivalents - end of year	**$ 1,206,668**	$ 1,453,692
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	**$ 12,458**	$ 12,901

See accompanying notes to financial statements and independent auditors' report.

THE LAGUNA PLAYHOUSE

Notes to Financial Statements
For the Year Ended June 30, 2014

1. Description of Organization

Founded in 1920, and incorporated in 1929, The Laguna Playhouse (the "Playhouse") is the oldest continuously operating theater on the West Coast. Located in Laguna Beach, California, the Playhouse produces theatrical productions for adults and children and provides the community with educational programs.

The Playhouse is organized as a nonprofit, tax-exempt literary and educational corporation under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Playhouse prepares its financial statements on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net assets are divided into three categories according to donor-imposed restrictions. The following is an explanation of the net asset categories included in the accompanying financial statements:

- Unrestricted net assets are not subject to donor-imposed restrictions and represent the portion of the expendable funds available for support of the general operations of the Playhouse.

- Temporarily restricted net assets consist of contributions that are subject to specific donor-imposed stipulations that can be fulfilled by actions of the Playhouse pursuant to those stipulations, or that expire by the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At June 30, 2014, temporarily restricted net assets consisted primarily of interests in charitable remainder trusts, promises to give that are due in future periods, funds received that contain donor-imposed restrictions and unappropriated earnings on permanently restricted funds.

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Permanently restricted net assets consist of funds that are subject to donor-imposed restrictions which stipulate that the principal be maintained in perpetuity and invested for the purposes of producing present and future income that may be expended for support of the general operations of the Playhouse.

When donor imposed restrictions on contributions and investment income are met within the same reporting period, they are presented as increases in unrestricted net assets.

Comparative Financial Information

The accompanying financial statements include prior year summarized, comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Playhouse's June 30, 2013 audited financial statements from which the summarized information was derived.

Certain amounts in the 2013 statement of functional expenses have been reclassified to conform to the 2014 presentation.

Contributions and Donations

Contributions received, including unconditional promises to give, are recognized as revenues in the period received.

Unconditional promises to give are recorded at net realizable value, if expected to be collected within one year, and at fair value, if expected to be collected in more than one year. Conditional promises to give are recognized as revenues when all conditions on which they depend are substantially met.

Donated Services

Donated services aggregated $193,029 during the year ended June 30, 2014 and consisted of in-kind rent for administrative offices and housing for production employees, and goods and services related to items donated to special fundraising events. In addition, the Playhouse received donated services related to its theatrical productions. Approximately 7,000 hours of donated services were received in fiscal year 2014, but were not recognized in the financial statements because they did not meet the criteria for financial statement recognition.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Playhouse considers cash equivalents to include time deposits, certificates of deposit, money market funds, and highly-liquid investments with maturities of three months or less when acquired.

Fair Value

GAAP defines fair value as the price that the Playhouse would receive to sell an asset, or pay to transfer a liability, in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the Playhouse's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The Playhouse's investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

- Level 1 - inputs are quoted prices in active markets.
- Level 2 - inputs are observable, directly or indirectly.
- Level 3 - inputs are unobservable and reflect assumptions on the part of the reporting entity.

As of June 30, 2014, investments consist of Actors' Equity Association bonds (Note 7) and temporarily restricted contributions receivable include interests in charitable remainder trusts (Note 3). The valuation of investments was determined using Level 2 inputs, while the valuation of interests in charitable remainder trusts was determined using primarily Level 3 inputs.

The following is a reconciliation of interests in charitable remainder trusts for which significant unobservable inputs (Level 3) were used in determining fair value:

Balance as of June 30, 2013	$	273,222
Net increase in estimated fair value of interests		21,595
Decrease in present value discount		10,794
Balance as of June 30, 2014	$	305,611

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is carried at cost or, if donated, at estimated fair value at the date of donation. Depreciation and amortization of property and equipment are provided over their estimated useful lives using the straight-line method. The estimated useful lives range from two to 30 years.

Allocated Expenses

Production and operational costs are primarily allocated among program services and supporting activities on the basis of usage and estimates made by management.

Income Taxes

The Playhouse qualifies as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the California Revenue and Taxation Code and, therefore, is not subject to income tax. Management does not believe the Playhouse has any potential uncertain tax positions, such as unrelated business income or activities that may jeopardize its tax-exempt status. The Playhouse is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Playhouse's management believes it is no longer subject to income tax examinations for years prior to 2010.

Endowment Disclosures

The Playhouse's permanently restricted assets consist of cash of $57,390 and a pledge of $47,517. The Playhouse has no funds designated by the Board of Trustees to function as endowments.

The Playhouse 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 Playhouse in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA").

2. Summary of Significant Accounting Policies (continued)

Endowment Disclosures (continued)

In accordance with UPMIFA, the Playhouse considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purpose of the organization and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the organization
7) The investment policy of the organization

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Playhouse to retain as a fund of perpetual duration.

The Playhouse's investment and spending policies for endowment assets attempt to preserve the principal of the endowment fund and, secondarily, provide current income. Based on the limited size of the Playhouse's endowment assets, formal investment and spending policies have not yet been developed. The Playhouse appropriates endowment fund earnings for distribution annually through its annual budgeting process.

3. Contributions Receivable

Contributions receivable consist of the following as of June 30, 2014:

Interests in charitable remainder trusts (temporarily restricted)	$	305,611
Contributions receivable (temporarily restricted)		16,000
Contributions receivable (permanently restricted)		47,517
Contributions receivable (unrestricted)		54,850
	$	423,978

The Playhouse is named as a third-party beneficiary in three irrevocable charitable remainder trust agreements for which it is not the trustee. The trusts shall terminate upon the death of the primary beneficiaries, at which time the Playhouse expects to receive its portion of the remaining trust assets, which are unrestricted. Based on information obtained from the trustees and estimates made by management of the Playhouse with respect to expected investment returns, required benefit payments and primary beneficiaries' life expectancies, the Playhouse's aggregate estimated interests in the three charitable remainder trusts was $305,611 as of June 30, 2014.

3. Contributions Receivable (continued)

The permanently restricted receivable does not have a formal due date and the unrestricted and temporarily restricted receivables are expected to be collected during the year ending June 30, 2015.

4. Property and Equipment

Property and equipment consist of the following as of June 30, 2014:

Land	$ 125,622
Buildings	205,174
Leasehold improvements	1,323,067
Stage equipment	432,402
Office equipment	389,580
Furniture and fixtures	88,230
Vehicles	30,138
Less: accumulated depreciation	(2,113,797)
	$ 480,416

Depreciation and amortization expense was $88,631 during the year ended June 30, 2014.

5. Notes Payable

Notes payable consist of the following as of June 30, 2014:

In November 1999, the Playhouse entered into an $85,000 mortgage note payable agreement to purchase a condominium. The note currently bears interest at 6.5% and is amortized over 30 years maturing on September 1, 2029.	$ 62,284
In November 1999, the Playhouse entered into an $84,000 mortgage note payable agreement to purchase a condominium. The note currently bears interest at 6.5% and is amortized over 30 years maturing on October 1, 2029.	61,744
In October 1999, the Playhouse entered into an $86,800 mortgage note payable agreement to purchase a condominium. The note currently bears interest at 6.5% and is amortized over 30 years maturing on October 1, 2029.	63,807
	$ 187,835

5. Notes Payable (continued)

Each note payable described above is collateralized by the related condominium property.

As of June 30, 2014, principal maturities of notes payable for each of the next five fiscal years and thereafter are as follows:

2015	$	7,476
2016		7,976
2017		8,511
2018		9,081
2019		10,337
Thereafter		144,454
	$	187,835

6. Deferred Revenue - Tickets

At June 30, 2014, the Playhouse has $970,501 of advance ticket sales for the 2014-2015 season. As each production is presented, the portion of the advance ticket sales that pertain to that production will be recognized as revenue. In the event any of the scheduled productions for the 2014-2015 seasons are not presented, the advance ticket collections for that production will be available for refund to the ticket holders.

7. Commitments and Contingencies

Leases

The Playhouse leases the land upon which its theater facilities and administrative offices are constructed under a noncancelable operating lease that expires on June 30, 2043. The related rent expense increases each year by the percentage increase in the Consumer Price Index for the Los Angeles – Orange County – Riverside metropolitan area for the preceding period of January 1 through December 31, subject to a maximum calculated on a cumulative limit of 4% each year. During the year ended June 30, 2014, the Playhouse incurred rent expense of $15,577.

7. Commitments and Contingencies (continued)

Leases (continued)

On April 1, 2012, the Playhouse entered into a 36 month lease for office space at 580 Broadway, Laguna Beach, California. This office space is owned by an entity that is controlled by the current president of the board of directors of the Playhouse. There was no base rent due from the start of the lease through June 30, 2014. Starting July 1, 2014, the base rent will be $1,613 per month or $19,350 per annum. For the year ended June 30, 2014, the Playhouse recognized $20,000 as in-kind revenue and in-kind expense associated with this lease.

Apartments, equipment and rehearsal space are also leased on a short-term basis from time to time for use by actors and production personnel. Total rent expense associated with such items for the year ended June 30, 2014 amounted to $77,018, of which $47,018 was paid in cash and $30,000 was donated and recognized as in-kind revenue and in-kind expense.

Independent Producer's Letter of Agreement with an Actors' Union

Under the terms of a February 2013 collective bargaining unit agreement ratification (LORT B Non-Repertory Contract) and an annually renewed independent producer's letter of agreement (Theatre For Young Audiences ("TYA") Contract) with an actors' union, the Playhouse has agreed to recognize the union as the collective bargaining representative of all union actors and stage managers employed by the producer. Under the LORT agreement, the Playhouse has agreed to make weekly contributions of $165 per week per individual for health benefits, and a pension fund contribution in an amount equal to 8% of the employed individuals' gross weekly salary, beginning from the first day of rehearsal. Additionally, the Playhouse has agreed to make a payment into the 401(k) plan of each employed individual of 0.75% of minimum weekly payment per actor per each employment week under the LORT agreement. Under the TYA agreement, no health contributions are due, since the producer utilizes only the per-performance TYA contract; the producer has agreed to make a pension fund contribution in an amount equal to 3.5% of the employed individuals' gross weekly salary, beginning from the first day of rehearsal. Total health benefits paid were $29,752 for the year ended June 30, 2014, and total pension fund contributions amounted to $12,711.

Also, under the terms of the agreement, Actors' Equity Association bonds aggregating $29,998, owned by the Playhouse, have been pledged to the actors' union in order to secure performance related to the letter of agreement. The bonds are included in investments at June 30, 2014 in the accompanying statement of financial position.

7. Commitments and Contingencies (continued)

Defined Contribution Plan

The Playhouse sponsors a defined contribution plan in which all full-time employees are eligible to participate, subject to certain length-of-service and age requirements. The Playhouse's contributions to the plan are made at the discretion of the board of trustees. During the year ended June 30, 2014, the board of trustees approved a $36,000 contribution to the plan.

Concentration of Credit Risk

The Playhouse maintains its cash and cash equivalents and investments with financial institutions, which are considered by management to be of high-credit quality. At times, balances in these accounts may exceed federally-insured limits. Management does not believe there is significant risk of non-performance by these financial institutions.

8. Subsequent Events

Management has evaluated subsequent events through October 8, 2014, the date the financial statements were available to be issued.

Loan Agreement

The Playhouse entered into a loan agreement with a bank on August 27, 2014 with a maximum borrowing amount of $130,000, variable interest rate of 1.75% per annum, and maturity date of December 5, 2019. The loan is secured by a $130,000 certificate of deposit, which earns interest at 0.25% per annum. Annually, the certificate of deposit interest rate will be evaluated by the bank, and if it is revised, the interest rate on the loan will also be adjusted to maintain a 1.5% spread.