



**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

THEATRE FOR CHILDREN, INC.

June 30, 2014

THEATRE FOR CHILDREN, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors Theatre for Children, Inc.

We have audited the accompanying financial statements of Theatre for Children, Inc., which comprise the statements of financial position as of June 30, 2014 and 2013, 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 the 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 consolidated 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 Theatre for Children, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Williams & Olds

Sacramento, California

October 31, 2014

THEATRE FOR CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 188,540	\$ 441,057
Investments	150,495	149,200
Accounts receivable	3,650	17,717
Pledges receivable, net - Note D	687,526	402,482
Prepaid expenses	57,674	35,352
Deposits	58,206	60,277
Property and equipment, net - Note E	<u>1,637,846</u>	<u>1,021,073</u>
TOTAL ASSETS	<u>\$ 2,783,937</u>	<u>\$ 2,127,158</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 189,565	\$ 85,304
Deferred revenue	742,560	757,356
Note payable - Note F	2,913	8,916
Lines of credit - Note G	100,000	150,000
Term loans - Note G	<u>92,389</u>	<u>83,784</u>
TOTAL LIABILITIES	1,127,427	1,085,360
COMMITMENTS - NOTE G	-	-
NET ASSETS		
Unrestricted	709,441	9,329
Temporarily restricted - Note H	<u>947,069</u>	<u>1,032,469</u>
TOTAL NET ASSETS	<u>1,656,510</u>	<u>1,041,798</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,783,937</u>	<u>\$ 2,127,158</u>

The accompanying notes are an integral part of these statements.

THEATRE FOR CHILDREN, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Ticket sales and subscriptions	\$ 1,837,068	\$ -	\$ 1,837,068
Contributions and grants	292,771	880,559	1,173,330
Sponsorships	127,470	-	127,470
Special events, net of direct costs of \$13,293	93,280	-	93,280
Concessions	72,472	-	72,472
Studio for young actors	53,965	-	53,965
Miscellaneous	35,558	-	35,558
Gain on investments	1,735	-	1,735
Net assets released from restrictions	965,959	(965,959)	-
	<u>3,480,278</u>	<u>(85,400)</u>	<u>3,394,878</u>
TOTAL REVENUE AND SUPPORT	3,480,278	(85,400)	3,394,878
EXPENSES			
Programs	1,967,033	-	1,967,033
General and administrative	395,612	-	395,612
Fundraising	417,521	-	417,521
	<u>2,780,166</u>	<u>-</u>	<u>2,780,166</u>
TOTAL EXPENSES	2,780,166	-	2,780,166
CHANGE IN NET ASSETS	700,112	(85,400)	614,712
NET ASSETS, beginning of year	<u>9,329</u>	<u>1,032,469</u>	<u>1,041,798</u>
NET ASSETS, end of year	<u>\$ 709,441</u>	<u>\$ 947,069</u>	<u>\$ 1,656,510</u>

The accompanying notes are an integral part of these statements.

THEATRE FOR CHILDREN, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Ticket sales and subscriptions	\$ 1,565,738	\$ -	\$ 1,565,738
Contributions and grants	243,490	1,059,365	1,302,855
Sponsorships	110,640	-	110,640
Special events, net of direct costs of \$23,964	79,528	-	79,528
Concessions	74,339	-	74,339
Summer camp	50,384	-	50,384
Miscellaneous	41,597	-	41,597
Gain on investments	3,471	-	3,471
Net assets released from restrictions	461,089	(461,089)	-
	<u>2,630,276</u>	<u>598,276</u>	<u>3,228,552</u>
TOTAL REVENUE AND SUPPORT	2,630,276	598,276	3,228,552
EXPENSES			
Programs	2,105,820	-	2,105,820
General and administrative	386,583	-	386,583
Fundraising	317,811	-	317,811
	<u>2,810,214</u>	<u>-</u>	<u>2,810,214</u>
TOTAL EXPENSES	2,810,214	-	2,810,214
CHANGE IN NET ASSETS	(179,938)	598,276	418,338
NET ASSETS, beginning of year	<u>189,267</u>	<u>434,193</u>	<u>623,460</u>
NET ASSETS, end of year	<u>\$ 9,329</u>	<u>\$ 1,032,469</u>	<u>\$ 1,041,798</u>

The accompanying notes are an integral part of these statements.

THEATRE FOR CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2014

	Programs	Administrative and General	Fundraising	Total
Salaries	\$ 896,907	\$ 226,475	\$ 138,355	\$ 1,261,737
Employee benefits	92,206	23,283	14,224	129,713
Payroll taxes	107,614	27,173	16,601	151,388
TOTAL SALARIES AND RELATED EXPENSES	1,096,727	276,931	169,180	1,542,838
Publicity and promotion	185,672	-	61,325	246,997
Professional fees	9,875	9,875	114,335	134,085
Rent	90,398	22,826	13,945	127,169
Royalties	127,098	-	-	127,098
Workers' compensation insurance	87,171	22,011	13,447	122,629
Artistic travel and housing	111,937	-	-	111,937
Utilities and building maintenance	54,780	13,832	8,450	77,062
Bank fees	42,284	-	7,030	49,314
Concessions	37,505	-	-	37,505
Insurance	22,857	5,771	3,525	32,153
Sets and scenery	30,656	-	-	30,656
Equipment rental and maintenance	15,623	3,418	-	19,041
Depreciation	12,262	4,988	-	17,250
Administrative travel and meetings	-	16,025	-	16,025
Costumes	15,580	-	-	15,580
Telephone	10,240	-	-	10,240
Interest	9,648	-	-	9,648
Dues and subscriptions	-	8,937	-	8,937
Bad debt expense	-	-	23,757	23,757
Taxes and licenses	-	6,425	-	6,425
Postage and shipping	2,254	1,046	2,527	5,827
Supplies	-	3,208	-	3,208
Security	2,340	-	-	2,340
Loss on disposal of fixed assets	2,126	-	-	2,126
Architecture fees	-	-	-	-
Other	-	319	-	319
TOTAL EXPENSES	\$ 1,967,033	\$ 395,612	\$ 417,521	\$ 2,780,166

The accompanying notes are an integral part of these statements.

THEATRE FOR CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2013

	Programs	General and Administrative	Fundraising	Total
Salaries	\$ 932,541	\$ 216,472	\$ 91,060	\$ 1,240,073
Employee benefits	106,795	24,791	10,428	142,014
Payroll taxes	94,287	21,887	9,207	125,381
TOTAL SALARIES AND RELATED EXPENSES	1,133,623	263,150	110,695	1,507,468
Royalties	166,878	-	-	166,878
Publicity and promotion	199,917	-	32,837	232,754
Professional fees	12,126	12,126	136,523	160,775
Rent	89,058	20,673	8,696	118,427
Utilities and building maintenance	54,377	12,623	5,310	72,310
Workers' compensation insurance	90,485	21,004	8,836	120,325
Architecture fees	80,682	-	-	80,682
Artistic travel and housing	72,490	-	-	72,490
Bank fees	51,672	-	-	51,672
Sets and scenery	36,619	-	-	36,619
Insurance	29,496	6,847	2,880	39,223
Concessions	32,847	-	-	32,847
Depreciation	13,872	4,575	-	18,447
Administrative travel and meetings	-	19,898	-	19,898
Bad debt expense	-	-	-	-
Equipment rental and maintenance	14,727	3,114	-	17,841
Costumes	14,860	-	-	14,860
Dues and subscriptions	-	9,817	-	9,817
Taxes and licenses	-	7,480	-	7,480
Telephone	8,958	-	-	8,958
Postage and shipping	914	1,746	7,343	10,003
Loss on disposal of fixed assets	-	-	-	-
Supplies	-	2,274	-	2,274
Security	2,219	-	-	2,219
Other	-	1,256	4,691	5,947
TOTAL EXPENSES	\$ 2,105,820	\$ 386,583	\$ 317,811	\$ 2,810,214

The accompanying notes are an integral part of these statements.

THEATRE FOR CHILDREN, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 614,712	\$ 418,338
<i>Adjustments to reconcile the change in net assets to net cash provided by operating activities:</i>		
Loss on sale of fixed assets	2,126	-
Depreciation	17,250	18,447
<i>Change in assets and liabilities:</i>		
Pledges receivable	(285,044)	(189,247)
Accounts receivables	14,067	29,326
Prepaid expenses	(22,322)	259
Deposits	2,071	(6,148)
Accounts payable and accrued liabilities	104,261	10,682
Deferred revenue	(14,796)	7,813
	<u>432,325</u>	<u>289,470</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	432,325	289,470
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for construction in progress	(633,354)	-
(Purchase of) proceeds from sale of investments	(1,295)	(144,100)
Cash paid for improvements and equipment	(2,795)	(2,000)
	<u>(637,444)</u>	<u>(146,100)</u>
NET CASH USED IN INVESTING ACTIVITIES	(637,444)	(146,100)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on line of credit	100,000	153,784
Payments on note payable	(147,398)	(6,003)
	<u>(47,398)</u>	<u>147,781</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(47,398)	147,781
NET CHANGE IN CASH AND CASH EQUIVALENTS	(252,517)	291,151
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>441,057</u>	<u>149,906</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 188,540</u>	<u>\$ 441,057</u>

SUPPLEMENTAL INFORMATION:

1. No cash was paid for income taxes during the years ended June 30, 2014 and 2013.
2. Cash in the amount of \$9,648 and \$10,026 was paid for interest during the years ended June 30, 2014 and 2013, respectively.

The accompanying notes are an integral part of these statements.

THEATRE FOR CHILDREN, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE A - ORGANIZATION

The Theatre for Children (the Theatre) was incorporated in the State of California on May 7, 1986. The primary mission of the Theatre is to instill in children and adults an appreciation for the theatre, a specific appreciation for play writing, and to promote the general welfare and advancement of culture and appreciation for the performing arts by the establishment and conducting of acting and writing workshops and classes, and to develop the artistic talents and skills of children, by the sponsoring and undertaking of performances and plays and other dramatic works for children.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board and reports 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. At June 30, 2014 and 2013, the Theatre had no permanently restricted net assets.

Cash and cash equivalents: Cash and cash equivalents consist of highly-liquid instruments deposit with maturities of three months or less.

Fair Value: The Theatre has adopted FASB ASC 820-10, Fair Value Measurements. ASC 820-10 provides a framework for measuring fair value and expands required disclosure about fair value measurements of certain assets and liabilities. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, whereby level 1 uses quoted prices and active markets for identical assets or liabilities when determining fair market value; level 2 uses non active quoted prices for similar assets and liabilities that can be corroborated with market data; and level 3 uses unobservable information with little or no market data. The Theatre utilizes the active market approach (level 1) to measure fair value for its financial assets and liabilities.

Property and Equipment: Property and equipment with original cost of \$500 or more are carried at cost or, if acquired by gift, at the estimated fair value at the date of donation, less accumulated depreciation. Depreciation and amortization are recorded using the straight-line method. Equipment is depreciated over the estimated useful lives of 5 to 10 years, and leasehold improvements are amortized over the lesser of the estimated useful life or the remaining lease term.

THEATRE FOR CHILDREN, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

June 30, 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Revenue: Deferred revenue represents ticket sales and subscriptions received in advance for the 2014-2015 and 2013-2014 season. Revenue is recognized on a pro-rata basis over the course of the 2014-2015 and 2013-2014 seasons.

Concentration of Risk: The Theatre maintains accounts at financial institutions with Federal Deposit Insurance Corporation limits of \$250,000 per institution. At June 30, 2014, the Theatre had no uninsured cash balance. At June 30, 2013, the Theatre had approximately \$200,000 in uninsured cash balances.

Contributions and Pledges: Contributions are recognized when received or unconditionally pledged. All unconditional pledges are recorded at their estimated realizable value on a discounted basis. Contributed services are recognized when they create or enhance non-financial assets, or are provided by individuals possessing specialized skills and the services would typically be paid for if not contributed. The Theatre reports contributions of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the contribution unless the stipulation is met in the same year. Such contributions are reported as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted assets are reclassified to unrestricted assets.

The Theatre reports gifts of buildings and equipment as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Theatre reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

Advertising and Promotion: Advertising and promotion costs relate primarily to media advertising. All costs are expensed as incurred.

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 the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes: The Theatre is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is, therefore, subject to federal and state taxes only on nonexempt income earned. There was no significant taxable income from nonexempt activities during the fiscal years ended June 30, 2014 or 2013.

THEATRE FOR CHILDREN, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

June 30, 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES – Continued

Uncertainty in Income Taxes: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management report information regarding its exposure to various tax positions taken by the Theatre. The Theatre has determined whether any tax positions have met the recognition threshold and have measured the exposure to those tax positions. Management believes that the Theatre has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Theatre are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

NOTE C - INVESTMENTS

Investments consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Certificates of Deposit	<u>\$ 150,495</u>	<u>\$ 149,200</u>

The components of investment return for the years ended June 30, 2014 and 2013 on the investments described above is as follows:

Net realized and unrealized gain	<u>\$ 1,735</u>	<u>\$ 3,471</u>
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NOTE D - PLEDGES RECEIVABLE

Pledges receivable at June 30 consist of the following:

	<u>2014</u>	<u>2013</u>
Gross pledges	\$737,526	\$426,212
Less: allowance for doubtful pledges	(23,730)	(23,730)
Less: discount to present value	<u>(26,270)</u>	-
Net pledges receivable	<u>\$687,526</u>	<u>\$ 402,482</u>

The Theatre commenced a capital campaign in 2007 to assist in the financing of a new theatre facility. The capital campaign has resulted in pledges that have been received or are expected to be received in cash over several years. These pledges are recorded as temporarily restricted contributions and are released to unrestricted net assets as pledges are collected and as pre-development costs of the new theatre facility are incurred. Pledges are recognized at their estimated fair value.

THEATRE FOR CHILDREN, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

June 30, 2014

NOTE D - PLEDGES RECEIVABLE - Continued

As of June 30, 2013, management determined that the present value of pledges receivable was substantially equivalent to the gross amount of pledges recorded. As of June 30, 2014, the Theatre expects to collect \$359,391 of pledged receivables within one year while the remaining \$378,135 is expected to be collected in more than one year.

Sutter Medical Foundation (Sutter) has pledged a 38,000 square-foot site to the Theatre for the purpose of constructing a new theatre facility. However, before the land is gifted to the Theatre, the Theatre must satisfy a number of conditions set forth in the Agreement Regarding Option to Purchase and Development Matters (Option). These conditions include approved architectural design and construction documents, proof of project financing, a business plan for operations, and all necessary land use and construction permits. Under the third amendment to the Option, the Theatre has until June 30, 2015 to meet the conditions of the pledge.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Pre-development costs	\$ 1,545,883	\$ 912,529
Office equipment	117,665	117,665
Leasehold improvements	191,543	191,543
Vehicles	<u>63,370</u>	<u>66,155</u>
	1,918,461	1,287,892
Less: accumulated depreciation	<u>(280,615)</u>	<u>(266,819)</u>
	<u>\$ 1,637,846</u>	<u>\$ 1,021,073</u>

The Theatre commenced due diligence on a proposed new theatre facility in 2008 and has continued to incur pre-development costs consisting primarily of engineering and architecture fees. Certain costs have been capitalized during 2014 and in years prior to 2014 and are included in pre-development costs. The Theatre has secured funding sources for the new theatre and expects to formalize all commitments for the funding of the theatre in fiscal year 2015. The Theatre measures impairment in accordance with ASC 360-10 (formerly FASB Statement No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of") which requires impairment losses to be recorded on specific long-lived assets used in operations where indicators of impairment are present and the undiscounted cash flows (net realizable value) estimated to be generated by those assets are less than the assets' carrying amount. Management believes there are no impairments of the Theatre's property.

THEATRE FOR CHILDREN, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

June 30, 2014

NOTE F - NOTE PAYABLE

During 2012 the Theatre financed the purchase of a tour van. At June 30, 2014 and 2013 the note payable had an outstanding balance of \$2,913 and \$8,916, respectively. The note's annual percentage rate is 8.39% and requires monthly principal and interest payments totaling \$500 and matures in January 2015.

NOTE G - COMMITMENTS

Operating Leases: The Theatre rents administrative space and rehearsal facilities under month to month operating leases. Rent and office equipment lease expense for the years ended June 30, 2014 and 2013 were \$127,169 and \$118,427, respectively.

Line of Credit: The Theatre maintains a line of credit facility with Sierra Vista Bank. As of June 30, 2014, the Theatre has a secured line of credit with a borrowing base of \$100,000. The line matures on February 14, 2015, bears a rate of interest of 4.2%, and had an outstanding balance of \$100,000 and \$150,000 as of June 30, 2014 and 2013, respectively. The line of credit is secured by certificates of deposits included in investments in the statements of position.

Term Loans: In 2013, the Theatre and Sierra Vista Bank agreed to convert a previous line of credit balance to a term loan allowing for a longer term for repayment. The term loan has a stated interest rate of 5.75%, a maturity date of August 23, 2015 and requires weekly payments of \$790. The term loan had an outstanding balance of \$46,540 and \$83,784 as of June 30, 2014 and 2013, respectively.

In 2014, the Theatre and Sierra Vista Bank also agreed to convert a portion of the current line of credit balance to a term loan allowing for a longer term for repayment. The term loan has a stated interest rate of 4.2%, a maturity date of February 14, 2018 and requires monthly payments of \$1,135. The term loan had an outstanding balance of \$45,849 as of June 30, 2014. The term loan is secured by certificates of deposits included in investments in the statements of position.

Line of Credit and Term Loan Guarantee: Subsequent to June 30, 2014, the Theatre obtained a loan guarantee for the Sierra Vista Bank debt from the Financial Development Corporation of Orange County (Development Corporation). The loan guarantee provided by the Development Corporation results in the restructure of the Sierra Vista Bank debt discussed above and releases the collateral restriction on the certificates of deposit included in investments.

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Capital Campaign Contributions Received and Receivable	\$ <u>947,069</u>	\$ <u>1,032,469</u>

THEATRE FOR CHILDREN, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

June 30, 2014

NOTE H - TEMPORARILY RESTRICTED NET ASSETS-Continued

Temporarily restricted net assets released from restrictions includes the capital campaign contributions received and receivable as well as other temporarily restricted net assets released from restriction due to the passage of time or meeting such restrictions.

NOTE I - PLANS FOR FUTURE FINANCIAL SUCCESS

The Theatre has been in operation since 1986 and during that time it has successfully navigated a number of economic downturns. The accompanying 2014 financial statements reflect improvements from the 2013 financial statements, but do continue to reflect the difficulties encountered in the current economic environment.

For the year ended June 30, 2014, the Theatre incurred a positive change in net assets totaling \$614,712 and generated \$432,325 in positive cash flow, however, these results are primarily due to the current capital campaign and such funds are generally restricted for the proposed new Theatre discussed in Note E. The Theatre has also expended cash (in the form of deferred revenue) before it has been earned; all to support current operations. Although these results could lead to concerns regarding the sustainability of the Theatre's operations, management believes that its plans for addressing these conditions mitigate those concerns.

For the year ending June 30, 2014, management continued to implement further expense reductions and entered into a contract to create a special show to tour to elementary schools throughout the state. This commissioned, fully paid tour helped the Theatre stabilize operations during 2014. The school tours will be a reoccurring revenue source and are expected to continue to enhance future operating results. As discussed in Note E, the Theatre has also made significant progress in obtaining approvals and loan commitments for the proposed new theatre and expects to solidify all funding sources in fiscal year 2015.

The Theatre has had continued success in obtaining community support and has developed more robust fund development activities. Management is implementing this strategy to diversify its revenue sources and, ultimately, provide reserve funds and an endowment.

Additionally, as discussed in Note G, the Theatre and its lender agreed to convert portions of the existing line of credit to term loans allowing for a longer period to repay the balance outstanding. The Theatre is making payments on a monthly and weekly basis on the term loans. The Theatre also entered into a new line of credit agreement with the same financial institution to help cover shortfalls in operating cash flow.

In summary, management and the Board of Directors believe that they have developed a business model that, if successfully executed, will continue to improve the operating results and financial position of the Theatre. These financial statements do not include any adjustments that might be necessary if the Theatre is unable to continue as a going concern.

THEATRE FOR CHILDREN, INC.

NOTES TO THE FINANCIAL STATEMENTS - (Continued)

June 30, 2014

NOTE J - SUBSEQUENT EVENTS

In preparing the financial statements, the Theatre has evaluated events and transactions for potential recognition or disclosure through October 31, 2014, the date that the financial statements were available to be issued. Subsequent to June 30, 2014, the Theatre obtained a loan guarantee for the Sierra Vista Bank debt from the Financial Development Corporation of Orange County (Development Corporation). The loan guarantee provided by the Development Corporation results in the restructure of the Sierra Vista Bank debt discussed in Note G and releases the collateral restriction on the certificates of deposit included in investments.