RICHMOND PERFORMING ARTS ALLIANCE

Financial Statements

June 30, 2018 and 2017

Keiter
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RICHMOND PERFORMING ARTS ALLIANCE

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Richmond Performing Arts Alliance
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Richmond Performing Arts Alliance, formerly Richmond CenterStage (the "Organization"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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; 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. Those standards require that we plan and perform the audits 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richmond Performing Arts Alliance as of June 30, 2018 and 2017, 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.

Emphasis of Matter

As described in Note 2, the financial statements of Richmond Performing Arts Alliance only, with its investments in subsidiaries reported by the equity method of accounting, have been prepared solely to present the separate results of operations and financial position of Richmond Performing Arts Alliance. The Organization publishes consolidated financial statements, which are its primary financial statements. We also have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Richmond Performing Arts Alliance, RPAC, Inc. and related entities as of June 30, 2018 and 2017 and for the years then ended, and we expressed an unmodified opinion on those consolidated financial statements.

Keiter

October 24, 2018
Glen Allen, Virginia

RICHMOND PERFORMING ARTS ALLIANCE

Statements of Financial Position
June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	$ 34,546	$ 362,853
Accounts receivable	56,502	17,616
Pledges and grants receivable, net - current	2,542,199	2,789,010
Other current assets	7,618	-
Total current assets	2,640,865	3,169,479
Property and equipment, net	10,124,551	10,556,808
Other assets:		
Pledges and grants receivable, net - non-current	3,220,243	4,024,427
Investment in partnership	40,613	38,505
Investment in endowment	2,710,063	2,569,242
Investment in RPAC, Inc.	104,213,095	107,098,979
Total other assets	110,184,014	113,731,153
	$ 122,949,430	$ 127,457,440

See accompanying notes to financial statements.

RICHMOND PERFORMING ARTS ALLIANCE

Statements of Financial Position, Continued
June 30, 2018 and 2017

Liabilities and Net Assets	2018	2017
Current liabilities:		
Line of credit, net - current	$ 194,409	$ 800,199
Accounts payable	48,126	21,138
Accrued expenses	10,187	20,000
Deferred revenue - current	1,069,063	1,069,063
Total current liabilities	1,321,785	1,910,400
Long-term obligations:		
Line of credit, net	1,980,342	1,977,721
Deferred revenue - non-current	11,398,338	12,562,939
Total liabilities	14,700,465	16,451,060
Net assets:		
Unrestricted	103,303,603	105,518,050
Temporarily restricted	2,681,542	3,233,816
Permanently restricted	2,263,820	2,254,514
Total net assets	108,248,965	111,006,380
	$ 122,949,430	$ 127,457,440

See accompanying notes to financial statements.

RICHMOND PERFORMING ARTS ALLIANCE

Statements of Activities
Year Ended June 30, 2018, with Comparative Totals for 2017

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenues:					
Contributions and grants	$ 267,883	$ 332,898	$ 9,306	$ 610,087	$ 523,735
Program revenue and special events	235,370	-	-	235,370	383,399
Naming rights income (see Note 7)	1,069,063	-	-	1,069,063	1,511,293
Development fee (see Note 8)	-	-	-	-	6,960,416
Equity in income (loss) of affiliates	(3,231,309)	-	-	(3,231,309)	6,013,618
Interest income	-	-	-	-	93,874
Investment income, net	-	178,993	-	178,993	288,989
Other revenue	446,644	-	-	446,644	330,576
	(1,212,349)	511,891	9,306	(691,152)	16,105,900
Net assets released from restriction	1,064,165	(1,064,165)	-	-	-
Expenses:					
Program services:					
Program expense	1,097,578	-	-	1,097,578	1,070,074
Depreciation	389,031	-	-	389,031	512,429
Support services:					
General and administrative	216,394	-	-	216,394	326,665
Fundraising	363,260	-	-	363,260	370,729
Total expenses	2,066,263	-	-	2,066,263	2,279,897
Change in net assets	(2,214,447)	(552,274)	9,306	(2,757,415)	13,826,003
Net assets, beginning of year	105,518,050	3,233,816	2,254,514	111,006,380	97,180,377
Net assets, end of year	$ 103,303,603	$ 2,681,542	$ 2,263,820	$ 108,248,965	$ 111,006,380

See accompanying notes to financial statements.

RICHMOND PERFORMING ARTS ALLIANCE

Statements of Activities, Continued
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Contributions and grants	$ 122,475	$ 390,254	$ 11,006	$ 523,735
Program revenue and special events	383,399	-	-	383,399
Naming rights income (see Note 7)	1,511,293	-	-	1,511,293
Development fee (see Note 8)	6,960,416	-	-	6,960,416
Equity in losses of affiliates	6,013,618	-	-	6,013,618
Interest income	93,874	-	-	93,874
Investment income, net	-	288,989	-	288,989
Other revenue	330,576	-	-	330,576
Total support and revenues	15,415,651	679,243	11,006	16,105,900
Net assets released from restriction	673,447	(673,447)	-	-
Expenses:				
Program services:				
Program expense	1,070,074	-	-	1,070,074
Depreciation	512,429	-	-	512,429
Support services:				
General and administrative	326,665	-	-	326,665
Fundraising	370,729	-	-	370,729
Total expenses	2,279,897	-	-	2,279,897
Change in net assets	13,809,201	5,796	11,006	13,826,003
Net assets, beginning of year	91,708,849	3,228,020	2,243,508	97,180,377
Net assets, end of year	$ 105,518,050	$ 3,233,816	$ 2,254,514	$ 111,006,380

See accompanying notes to financial statements.

RICHMOND PERFORMING ARTS ALLIANCE

Statements of Functional Expenses
Year Ended June 30, 2018, with Comparative Totals for 2017

	2018				2017
	Program Services	General and Administrative	Fundraising	Total	Total
Salaries	$ 219,954	$ 104,576	$ 148,112	$ 472,642	$ 432,388
Taxes, payroll	16,702	7,941	11,247	35,890	38,702
Employee benefits	21,507	10,225	14,482	46,214	47,621
Education	66,475	-	-	66,475	55,237
Fundraising	-	-	93,411	93,411	128,605
Gala expenses	-	-	64,140	64,140	129,649
Taxes, licenses and fees	19,091	17,956	-	37,047	33,838
Travel, meals, meeting expense	1,153	902	2,055	4,110	8,386
Depreciation	389,031	31,786	11,440	432,257	569,365
Supplies, printing, postage	3,638	1,013	983	5,634	3,829
Professional fees	20,154	6,718	6,718	33,590	38,966
Office rent and insurance	4,598	4,737	4,598	13,933	18,108
Information technology	2,766	2,850	2,766	8,382	29,270
Office expense and miscellaneous	2,364	6,296	3,308	11,968	13,399
In-kind expenses	25,729	6,432	-	32,161	15,000
Interest expense	122,756	-	-	122,756	93,323
Performance expense	25,802	-	-	25,802	12,639
Marketing	44,889	14,962	-	59,851	111,572
Operating subsidy for RPAC entities	500,000	-	-	500,000	500,000
	$ 1,486,609	$ 216,394	$ 363,260	$ 2,066,263	$ 2,279,897

See accompanying notes to financial statements.

RICHMOND PERFORMING ARTS ALLIANCE

Statements of Functional Expenses, Continued
Year Ended June 30, 2017

	Program Services	General and Administrative	Fundraising	Total
Salaries	$ 227,364	$ 124,827	$ 80,197	$ 432,388
Taxes, payroll	20,351	11,173	7,178	38,702
Employee benefits	25,040	13,748	8,833	47,621
Education	55,237	-	-	55,237
Fundraising	-	-	128,605	128,605
Gala expenses	-	-	129,649	129,649
Taxes, licenses and fees	10,084	23,754	-	33,838
Travel, meals, meeting expense	4,557	3,138	691	8,386
Depreciation	512,429	45,549	11,387	569,365
Supplies, printing, postage	1,413	1,690	726	3,829
Professional fees	3,660	34,208	1,098	38,966
Office rent, equipment and insurance	12,431	5,152	525	18,108
Utilities	11,708	16,099	1,463	29,270
Office expense and miscellaneous	1,058	11,964	377	13,399
In-kind expenses	7,500	7,500	-	15,000
Interest expense	93,323	-	-	93,323
Performance expense	12,639	-	-	12,639
Marketing	83,709	27,863	-	111,572
Operating subsidy for RPAC entities	500,000	-	-	500,000
	$ 1,582,503	$ 326,665	$ 370,729	$ 2,279,897

See accompanying notes to financial statements.

RICHMOND PERFORMING ARTS ALLIANCE

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (2,757,415)	$ 13,826,003
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	432,257	569,365
Amortization of deferred loan costs	2,621	2,621
Contributions restricted for endowment	(9,306)	(11,006)
Equity in (income) losses of affiliates	3,231,309	(6,013,618)
Investment income reinvested	(70,691)	(54,951)
Unrealized net gain on investments	(913)	(176,558)
Realized net gain on sale of investments	(107,389)	(46,007)
Changes in operating assets and liabilities:		
Accounts receivable	(38,886)	19,181
Pledges and grants receivable, net	1,050,995	740,566
Advances to affiliates, net	-	(296,450)
Other current assets	(7,618)	29,486
Accounts payable	26,988	(47,096)
Accrued expenses	(9,813)	-
Deferred revenue	(1,164,601)	(1,582,967)
Net cash provided by operating activities	577,538	6,958,569
Cash flows from investing activities:		
Purchase of property and equipment	-	(26,829)
Purchase of investments	(21,750)	(154,566)
Proceeds from the sale of investments	57,814	105,000
Advances to affiliates	(345,425)	(8,400,203)
Net cash used in investing activities	(309,361)	(8,476,598)

See accompanying notes to financial statements.

RICHMOND PERFORMING ARTS ALLIANCE

Statements of Cash Flows, Continued
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Contributions restricted to endowment	$ 9,306	$ 11,006
Proceeds from (payments on) line of credit, net	(605,790)	1,160,279
Net cash provided by (used in) financing activities	(596,484)	1,171,285
Change in cash and cash equivalents	(328,307)	(346,744)
Cash and cash equivalents, beginning of year	362,853	709,597
Cash and cash equivalents, end of year	$ 34,546	$ 362,853
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 120,135	$ 92,245

See accompanying notes to financial statements.

1. Nature of Operations:

Richmond Performing Arts Alliance (the "Organization") a non-profit corporation organized in December 2000 for the purpose of supporting the performing arts in the Commonwealth of Virginia. During 2017, the Organization changed its name from Richmond CenterStage to Richmond Performing Arts Alliance.

The Organization's *Vision* is to be a catalyst for creative and vibrant arts throughout the Richmond, Virginia area.

The Organization's *Mission* is to provide diverse local and world-class performing arts, transformative arts education experiences for students of all ages, and inspirational venues—all to strengthen the cultural and economic vitality of Greater Richmond.

In addition to its comprehensive BrightLights Education Initiatives and wide array of performances and productions, Richmond Performing Arts Alliance hosts a range of resident arts companies in a collaborative environment. The Organization provides support for these distinctive venues: Altria Theater at Monroe Park, Carpenter Theatre and Dorothy Pauley Square downtown, which houses Rhythm Hall, Showcase Gallery, the Libby S. Gottwald Playhouse and the Genworth BrightLights Education Center.

Dominion Energy Center (Formerly, Richmond CenterStage)

In January 2005, the Organization entered into an agreement with the Carpenter Center for the Performing Arts (the "Carpenter Center") to transfer substantially all assets of the Carpenter Center, at fair value, to the Organization. In addition, the Organization entered into a transfer agreement with the Richmond Redevelopment and Housing Authority ("RRHA") to receive property, previously owned by the Carpenter Center, which was commonly known as the Thalhimer property. In June 2007, the Organization began to renovate the Carpenter Center and construct a performing arts center within the adjacent Thalhimer property. This adjacent facility includes a multi-purpose performance hall, a 200-seat community playhouse, a performing arts education center, offices and support space.

The entire facilities, including the former Carpenter Center, were named *Richmond CenterStage*. During 2008, the names of the two major property sections of *Richmond CenterStage* were changed to *Carpenter Theatre* and *Dorothy Pauley Square*. The facilities were completed in September 2009. In December 2015, the Organization changed the name of *Richmond CenterStage* to *Dominion Energy Center* in connection with the receipt of a $5.5 million grant, which is recorded as grants receivable and deferred revenue at June 30, 2018 and 2017 (see Note 7).

A wholly-owned, controlled subsidiary of the Organization, RPAC, Inc. ("RPAC Inc.") was formed in July 2007 with responsibility for (1) construction implementation and oversight, (2) management of the *Dominion Energy Center* facilities and (3) management of the *Altria Theater* under an agreement with the City of Richmond.

1. Nature of Operations, Continued:

RPAC Inc. is the general partner and manages the operations of Richmond Performing Arts Center, LLLP (“RPAC LLLP”), which was formed in December 2008 and controls the *Carpenter Theatre* through a capital lease with the City of Richmond.

RPAC Inc. is the sole member and the Manager of Richmond Performing Arts Tenant, LLC (“RPAC Tenant”). RPAC Tenant leases the *Carpenter Theatre* from RPAC LLLP and is a limited partner in RPAC LLLP.

RPAC Inc. is the Manager and effective December 31, 2016, the sole member of Richmond Performing Arts SCP, LLC (“RPA SCP”), which was formed in December 2008 and is the state tax credit limited partner in RPAC LLLP.

Altria Theater

In March 2012, RPAC Inc., as general partner, organized a partnership, Landmark Theater, LLLP (“LT LLLP”), to rehabilitate, develop and lease the *Altria Theater*, a performing arts venue located in downtown Richmond, Virginia formerly named the *Landmark Theater*. In December 2012, LT LLLP entered into an agreement with the Economic Development Authority of the City of Richmond to lease the *Altria Theater*. LT LLLP renovated the *Altria Theater*, which was funded using federal and state tax credits, contributions for naming rights, and contributions from the City of Richmond, local corporations, and private individuals.

In connection with earning federal and state historic tax credits for the rehabilitation, RPAC Inc. created Landmark Theater Master Tenant, LLC and Landmark Theater SCP, LLC. Additionally, RPAC, Inc. federal New Market Tax Credits (“NMTC”) to help fund the rehabilitation of *Altria Theater*.

RPAC, Inc. is the managing member of Landmark Theater Master Tenant, LLC (“LTM Tenant”), which was formed in December 2012 and subleases the *Altria Theater* from LT LLLP and is a limited partner in LT LLLP.

RPAC, Inc. is the managing member of Landmark Theater SCP, LLC (“LT SCP”), which was formed in December 2012 and is the state tax credit limited partner in LT LLLP. RPAC, Inc. is the general partner of LT LLLP that was established in December 2012.

2. Summary of Significant Accounting Policies:

Basis of Presentation: The accompanying financial statements include only the accounts of the Organization. The Organization's investment in and advances to RPAC Inc., RPAC LLLP, RPAC Tenant, RPA SCP, LT LLLP, LTM Tenant, and LT SCP have been reported by the equity method of accounting, and the Organization has recognized its share of the operating results of RPAC Inc., RPAC LLLP, RPAC Tenant, RPA SCP, LT LLLP, LTM Tenant, and LT SCP for each fiscal year. As a result of RPAC Inc.'s control over RPAC LLLP, RPAC Tenant, RPA SCP, LT LLLP, LTM Tenant, and LT SCP, the Organization consolidates the financial statements of these entities for primary financial reporting purposes.

Cash and Cash Equivalents: The Organization considers all highly liquid instruments purchased with maturities of three months or less to be cash equivalents.

Pledges and Grants Receivable: The Organization has recorded pledges receivable related to the completed construction and renovation of the venues, the Organization's endowment, naming rights, and for education. Management reviews these pledges on an annual basis to determine collectability. The allowance for doubtful pledges was $28,232 as of June 30, 2018 and $3,610 as of June 30, 2017.

Accounts Receivable: Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. At June 30, 2018 and 2017, no allowance for uncollectible accounts was considered necessary.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statements of activities. Investments in partnerships with a less than 20% ownership percentage are reported at cost and evaluated for impairment on an annual basis.

Credit Risk and Concentrations: Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable, and pledges receivable. The Organization places its cash and cash equivalents with financial institutions in amounts which from time to time exceed federally insured limits. Accounts receivable and pledges and grants receivable are from individuals, corporations and foundations located primarily in the Richmond, Virginia area. The Organization believes its credit risk related to these accounts receivable and pledges and grants receivable is limited due to the nature of its donors.

2. Summary of Significant Accounting Policies, Continued:

Credit Risk and Concentrations, Continued: At June 30, 2018, two donors accounted for 96% of pledges and grants receivable. No single donors accounted for more than 10% of contributions and grants revenue for 2018. At June 30, 2017, two donors accounted for 97% of pledges and grants receivable. Three donors accounted for 52% of contributions and grants revenue for 2017. These concentrations were the result of the Organization's capital campaign strategy to secure construction gifts from a small pool of large donors to renovate the *Altria Theater* or for naming rights related to the venues.

Property and Equipment: The various classes of property and equipment are stated at cost or fair value at the date of donation. Depreciation of property is computed primarily using the straight-line method over the estimated useful lives of the various assets as follows: buildings - 30 to 40 years; building improvements - 10 to 25 years; and furniture and equipment - 5 to 7 years. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred.

The Organization has implemented Financial Accounting Standards Board ("FASB") guidance related to accounting for the impairment of long-lived assets, which requires the Organization under certain circumstances to review long-lived assets to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the asset. If the carrying value exceeds the cash flows the recorded amounts of the assets will be reduced to their fair value. No impairments were identified during 2018 and 2017.

Financial Statement Presentation: The Organization 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.

> Unrestricted net assets are those whose use by the Organization has not been limited by donors to a specific time period or purpose.
>
> Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.
>
> Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which is expended to support the activities of the Organization.

Recognition of Revenue: Contributions and grants, except for a specific grant related to naming rights (see Note 7), are recognized as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions and grants that are restricted by the donor as to purpose or time are reported as an increase in temporarily or permanently restricted net assets even if the restriction expires in the fiscal year in which the contribution or grant is recognized. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted.

2. Summary of Significant Accounting Policies, Continued:

Recognition of Revenue, Continued: Program and special event revenue received in advance is deferred and recognized when the program or special event is delivered. Amounts received in connection with naming rights are also deferred and recognized over the period of the naming rights (see Note 7).

Contributed Materials and Services: The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and are of the type that would have been purchased if not contributed, would be recognized in the financial statements, if material. The Organization recognized contributed materials and services of $32,161 in 2018 and $15,000 in 2017.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, fund-raising campaign solicitations and various committee assignments. The value of these services could not be estimated and is not recognized in the financial statements.

Income Taxes: Richmond Performing Arts Alliance is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2) of the Internal Revenue Code.

Income Tax Uncertainties: The Organization has adopted FASB guidance related to accounting for uncertainty in income taxes, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the Organization's financial statements.

In accordance with the FASB guidance, the Organization discloses the expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the facts and records unrecognized tax benefits or liabilities for known, or anticipated tax issues based on the Organization's analysis of whether additional taxes would be due to the authority given their full knowledge of the tax position. The Organization has completed its assessment and determined that there were no tax positions which would require recognition under the interpretation. The Organization's tax returns are not currently under examination by any tax authority.

2. Summary of Significant Accounting Policies, Continued:

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events: Management has evaluated subsequent events through October 24, 2018, the date the financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying financial statements.

3. Pledges and Grants Receivable:

Pledges and Grants receivable represent unconditional promises to give which have been made by donors but have not yet been received by the Organization. Pledges and grants which will not be received in the subsequent year have been discounted using an estimated rate of return (2.84% for 2018 and 1.96% for 2017) which could be earned if such contributions and grants had been received in the current year.

Total pledges and grants receivable, which are a component of deferred revenue or temporarily and permanently restricted net assets, were as follows at June 30:

	2018	2017
Receivable in less than one year	$ 2,555,749	$ 2,792,620
Receivable in future years	3,814,260	4,508,224
	6,370,009	7,300,844
Less: Allowance for doubtful pledges	(28,232)	(3,610)
Less: Discount to net present value	(579,335)	(483,797)
	$ 5,762,442	$ 6,813,437

4. Investments:

Investments held in the Organization's endowment consisted of the following at June 30:

	2018		2017	
	Cost	Market	Cost	Market
Mutual funds	$ 2,261,543	$ 2,710,063	$ 2,119,809	$ 2,569,242

The following schedule summarizes the net investment income for the years ended June 30:

	2018	2017
Interest and dividends	$ 70,691	$ 77,873
Unrealized net gain	913	165,109
Realized net gain	107,389	46,007
	$ 178,993	$ 288,989

The Organization has a 1% interest in Elephant Eye Theatricals, LLC, which was organized to develop theatrical presentations. In connection with this investment, the Organization entered into a Presentation Rights Agreement giving the Organization first call on any shows developed by Elephant Eye in Richmond or a 75-mile radius. The investment is valued at $40,613 as of June 30, 2018 and $38,505 as of June 30, 2017. The Organization recognized an unrealized gain of $2,108 in 2018 and an unrealized loss of $1,449 in 2017. During 2017, the Organization received a $10,000 distribution from the investment.

5. Property and Equipment:

The Organization had the following property and equipment as of June 30:

	2018	2017
Land	$ 4,299,019	$ 4,299,019
Land improvements	645,899	645,899
Buildings	6,283,329	6,283,329
Equipment	1,693,814	1,693,814
Furniture and fixtures	2,555,249	2,555,249
	15,477,310	15,477,310
Accumulated depreciation	5,352,759	4,920,502
	$ 10,124,551	$ 10,556,808

6. Agreements with City of Richmond:

The Organization and RPAC Inc. are parties to a Comprehensive Agreement with the City of Richmond which placed certain legal requirements on the parties.

The City of Richmond agreed to provide grant funding of $25,000,000, and, in accordance with the Comprehensive Agreement, the Organization transferred title of the *Carpenter Theatre* land and building to the City by special warranty deed in 2008.

The Comprehensive Agreement provided for the Organization to transfer the *Carpenter Theatre* property to the City. The Organization transferred the property to the City in May 2008, followed by the December 30, 2008 execution of the lease agreement by which RPAC LLLP leased the *Carpenter Theatre* property from the City. The Organization's historical cost basis in the Carpenter Theatre land ($1,040,000) and building ($5,032,878) was recorded as part of RPAC LLLP's property and equipment.

The lease agreement executed with the City provides for RPAC LLLP to pay annual rent of $1 to the City for the *Carpenter Theatre* through December 30, 2048, with the option to purchase the property for $1 at the end of the lease. RPAC LLLP is responsible for the ongoing routine maintenance and repair of the *Carpenter Theatre*.

Under the terms of the lease agreement, RPAC LLLP is to indemnify, defend and hold harmless the City and its officers, directors, agents and employees, from and against any and all losses, claims, liabilities, or damages arising from the use or occupancy of the leased *Carpenter Theatre*, including any matters that arise from the sublease of the *Carpenter Theatre*.

6. Agreements with City of Richmond, Continued:

Under the Comprehensive Agreement, RPAC Inc. provided construction management oversight for the renovation of the *Carpenter Theatre* and the construction of *Dorothy Pauley Square* using funding for construction transferred to it by the Organization. After the completion of the renovation and construction in September 2009, RPAC Inc. became responsible for managing the facilities, including but not limited to, scheduling use of the facilities, renting the facilities, entering services contracts, ticketing, marketing, hiring/firing staff, payroll processing, and approving finances and operating budgets. To support operations, the City has agreed to contribute annually up to $500,000 in a dollar-for-dollar match to Organization contributions. The Organization has begun to raise contributions for an endowment fund. The primary use of investment earnings of the endowment will be to fund its contributions to RPAC Inc.

The Comprehensive Agreement also provided that RPAC Inc. will have a lease on *Dorothy Pauley Square*, which is owned by the Organization. The December 30, 2008 lease agreement between the Organization and RPAC Inc. for the *Dorothy Pauley Square* facilities provides for annual rent of $1 for 99 years, with all operating costs to be paid by RPAC Inc.

On July 11, 2012, LT LLLP entered into a lease with the Economic Development Authority of the City of Richmond (the "EDA") for the *Altria Theater*. The lease is for a term of 99 years at a rental of $1 per year, which has been paid in full by LT LLLP. The lease allowed for LT LLLP to engage in construction and restoration activities for certain improvements and repairs so long as they were in accordance with certain historic requirements. Further, the lease was executed with the intent that LT LLLP would enter into a sublease agreement with LTM Tenant and that LTM Tenant would use a management company to operate the *Altria Theater* as a performing arts facility.

Under the terms of the lease agreement, LT LLLP is to indemnify, defend and hold harmless the EDA and its officers, directors, agents and employees, from and against any and all losses, claims, liabilities, or damages arising from the use or occupancy of the leased *Altria Theater*, including any matters that arise from the sublease of the *Altria Theater*.

7. Naming Rights:

During 2013, the EDA sold the naming rights to the *Altria Theater* as a whole and to certain internal portions of the *Altria Theater* for a series of conditional payments totaling $12,000,000. The EDA was required to donate the initial payment from these sales to RCS, which amounted to approximately $3,000,000 and subsequent payments totaling $9,000,000 have been made directly to the Organization. The naming rights for *Altria Theater* as a whole are for 20 years and took effect on October 1, 2013. The naming rights for internal portions of the *Altria Theater* are for 10 years and took effect on October 1, 2013. The revenue received by the Organization will be amortized over the respective effective period.

7. Naming Rights, Continued:

During 2016, the Organization sold the naming rights to the *Dominion Energy Center* in connection with a grant for $5.5 million. The naming rights for *Dominion Energy Center* are for 15 years and took effect on January 1, 2016. The grant revenue received by the Organization will be amortized over the respective effective period.

8. Investment in RPAC, Inc. and Related Agreements:

As described in Note 1, RPAC Inc. is a wholly-owned, controlled subsidiary of the Organization. RPAC Inc. is the managing member and/or sole owner of several additional entities (collectively, the "Affiliates").

The combined condensed financial position of the Affiliates as of June 30, 2018 and 2017 is set forth below:

	2018	2017
Assets		
Cash and cash equivalents	$ 6,893,623	$ 8,110,626
Accounts receivable	1,183,883	959,406
Property and equipment, net	129,273,230	133,758,804
Investments	4,500,000	-
Other assets	5,231,219	5,140,956
Total assets	$ 147,081,955	$ 147,969,792
Liabilities and Equity		
Accounts payable	$ 2,060,996	$ 1,055,584
Accrued expenses	311,515	158,382
Deferred revenue	9,969,282	8,227,660
Note payable, noncurrent	4,961,600	4,961,600
Equity	104,213,095	107,098,979
Noncontrolling interest	25,565,467	26,467,587
Total liabilities and equity	$ 147,081,955	$ 147,969,792

8. Investment in RPAC Inc. and Related Agreements, Continued:

The combined condensed results of operations of the Affiliates for the years ended June 30, 2018 and 2017 are set forth below:

	2018	2017
Support and Revenues		
Grants	$ 64,646	$ 64,646
Program revenues	5,610,079	5,892,828
Contributions	1,000,000	1,405,000
Interest income	50,932	51,740
Total	6,725,657	7,414,214
Expenses		
Program services:		
Program expense	5,154,019	6,528,620
Depreciation	4,654,111	5,228,348
Loss on disposal of property and equipment	(396,507)	-
Gain (loss) allocable to noncontrolling interest	545,343	(688,083)
Total	9,956,966	11,068,885
Gain from purchase on noncontrolling interest	-	9,668,289
Net gain (loss)	$ (3,231,309)	$ 6,013,618

Partnership Agreements

RPAC LLLP was organized as a taxable limited liability limited partnership in order that third-party investors could invest in limited partner equity interests and receive specific individual allocations of Federal Historic Tax Credits, New Markets Tax Credits, and Virginia Rehabilitation Tax Credits (which RPAC LLLP earned for the rehabilitation of the *Carpenter Theater*) that were agreed upon in the entity formation documents. As of June 30, 2018, no further capital contributions are required or expected from the partners.

Under the partnership agreement, RPAC LLLP was obligated to pay and has paid the Organization a development fee of $6,960,416 for its services in connection with the development of *Dominion Energy Center*. In addition, RPAC LLLP and RPAC Inc. have certain obligations to indemnify the investor limited partners as stipulated in the partnership agreement. The development fee obligation was paid during 2017 and was returned to RPAC Inc. in the form of a capital contribution. The obligations to indemnify ceased with the buyout of the limited partner interests during 2017 and earlier years.

8. Investment in RPAC Inc. and Related Agreements, Continued:

LT LLLP is organized as a taxable limited liability limited partnership in order that third-party investors could invest in limited partner equity interests and receive specific individual allocations of Federal Historic Tax Credits, New Markets Tax Credits, and Virginia Rehabilitation Tax Credits (which LT LLLP earned for the rehabilitation of the *Altria Theater*) that were agreed upon in the entity formation documents. No further capital contributions are required or expected from the partners.

Sublease Agreements

RPAC LLLP has subleased the *Carpenter Theatre* to RPAC Tenant under a 32-year agreement that expires in September 2041. In 2012, the lease was amended to reduce currently payable rents, with no effect on aggregate rents due under the lease. The base rent escalates from $1,287,990 for 2018 to over $4.5 million in 2041. In addition, RPAC Tenant pays all insurance and operating expenses, other than repairs to real property and property taxes which are paid by RPAC LLLP. The lease term commenced with the September 2009 opening of the facility. Scheduled minimum lease payments for the following fiscal years are as follows: $1,378,575 for 2019, $1,494,405 for 2020, $1,592,910 for 2021, $1,673,595 for 2022, and $1,782,495 for 2023. Scheduled aggregate minimum lease payments for 2024 to the end of the lease in 2042 approximate $58.5 million.

LT LLLP has subleased the *Altria Theater* to LTM Tenant under at 34-year agreement that expires in December 2046. The base rent escalates from $614,000 for 2018 to $865,500 in 2046. In addition, LTM Tenant pays all insurance, repairs and maintenance, taxes and operating expenses as additional rent. Scheduled minimum lease payments for the following fiscal years are as follows: $675,000 for 2019, $770,000 for 2020, $840,500 for 2021, $841,500 for 2022, and $842,500 for 2023. Scheduled aggregate minimum lease payments for 2024 to the end of the lease in 2046 approximate $20.1 million.

Management Agreements

RPAC LLLP and RPAC Tenant have contractually engaged RPAC Inc. to manage the operations of *Dominion Energy Center* and also agreed to allow RPAC Inc. to engage a professional management company to provide those management services. In December 2008, RPAC Inc. entered into a management agreement with a professional management company covering *Dominion Energy Center,* which provided for minimum monthly payments of $8,000, plus certain incentive fees, for all management services for these venues. In addition to the monthly payments and incentive fees, RPAC Inc. reimburses the professional management company for the costs of using its employees, as well as, other direct venue expenses. This agreement was subsequently extended to 2015, with minimum monthly fees of $10,000 and certain incentive fees. In March 2015, the agreement was renewed through 2022, with minimum monthly fees of $5,000 and certain incentive fees.

8. Investment in RPAC Inc. and Related Agreements, Continued:

Management Agreements, Continued

In July 2012, LT LLLP entered into a management agreement with a professional management company to manage the *Altria Theater*. The management agreement included a provision that, at the time that LT LLLP entered into a master lease of the *Altria Theater* with LTM Tenant, LT LLLP would assign all of its rights, title and interest in the management agreement to LTM Tenant. The master lease of the *Altria Theater* was executed on December 20, 2012. The term of the management agreement is for 60 months and began on July 11, 2012, with the option to renew for five additional one-year terms. As compensation for its services under the management agreement, the management company is to receive a monthly fixed management fee of $5,000 and an incentive fee based on the *Altria Theater*'s net operating profit or loss. In addition to the monthly payments and incentive fees, the professional management company will be reimbursed for the costs of using its employees, as well as, other direct venue expenses. In March 2015, the agreement was renewed through 2022, with minimum monthly fees of $5,000 and certain incentive fees.

9. Line of Credit:

In 2016, the Organization entered into a promissory note for a line of credit with a commercial bank that allows borrowings up to $3,000,000. The note includes a step-down provision that reduced the principal amount of the loan to $2,500,000 at June 10, 2018, $2,000,000 at December 10, 2018, and $1,000,000 at December 10, 2020. The note also includes a term note conversion feature that allows both RPAA and the commercial bank to mutually agree to convert the outstanding balance on December 10, 2020 into a five-year term loan. Interest on outstanding borrowings accrues and is payable monthly at an interest rate of LIBOR plus 3.5% (5.16% at June 30, 2018 and 3.87% at June 30, 2017). The note is collateralized by certain real property of the Organization and has an outstanding balance of $2,194,409 at June 30, 2018 and $2,800,199 at June 30, 2017. Interest expense was $118,824 for 2018 and $93,323 for 2017.

The note is shown net of deferred loan costs incurred in connection with obtaining the note, which is net of $19,658 at June 30, 2018 and $22,279 at June 30, 2017. Amortization expense was $2,621 for each of 2018 and 2017. The deferred loan costs are being amortized over a period of ten years.

10. Commitments and Contingencies:

The Historic Tax Credits ("HTC") related to the qualified expenditures by RPAC LLLP for the renovation of the *Carpenter Theatre* and by LT LLLP for the renovation of the *Altria Theater* are subject to five years of compliance under Section 47 of the Internal Revenue Code. For RPAC LLLP, this compliance ended August 14, 2014 and for LT LLLP, the HTC compliance for its Federal HTC of $12,610,790 and State HTC of $15,639,881 will end September 12, 2019. The HTC recapture decreases by 20% each year during the five year compliance period. The New Markets Tax Credit ("NMTC") compliance is for seven years as described in Section 45D of the Internal Revenue Code. For RPAC LLLP's approximately $2.4 million in NMTC, the compliance ended December 31, 2015. The NMTC compliance for LT LLLP's approximately $2.5 million in NMTC will end December 12, 2019. The NMTC recapture is a full recapture of the NMTC previously taken plus interest. The tax credits are also contingent on maintaining compliance with applicable sections of the Internal Revenue Code and other regulatory requirements.

While the Organization has no knowledge of any problems with obtaining and maintaining the above-cited compliance, any such potential noncompliance could require a substantial adjustment to the contributed capital of the investor limited partners.

Pursuant to the LT LLLP partnership agreement, LTM Tenant is entitled to an annual priority return, meaning an annual distribution to LTM Tenant of an amount equal to one percent (1%) of its Adjusted Capital Contribution beginning as of its Admission Date (December 20, 2012), payable from net cash flow. To the extent net cash flow is unavailable, the priority return is to be accrued and paid from future net cash flow. The priority return was $138,705 for 2018 and 2017. Priority return payments by LT LLLP were $0 in 2018 and $250,782 in 2017.

Pursuant to the LTM Tenant Operating Agreement, the Investor Member is to receive a Priority Return annually, payable to the extent of Net Cash Flow or from the Proceeds of a Capital Transaction, as defined in the Operating Agreement. The Priority Return was $639,886 for the year ended December 31, 2017 and $432,062 for the year ended December 31, 2016. The 2017 Priority Return was unpaid as of June 30, 2018 and included in accounts payable in the accompanying statement of financial position.

Pursuant to the RPAC Tenant and LTM Tenant operating agreements, RPAC Inc. is obligated to fund any operating deficits of the *Carpentre Theatre* and the *Altria Theater* to the extent required to enable RPAC Tenant and LTM Tenant to pay operating expenses and make the rent payments required by the sublease agreements. Such Operating Deficit Loans do not bear interest and are subordinated to any other debt of RPAC Tenant and LTM Tenant. There were no Operating Deficit Loans at June 30, 2018 or 2017.

The Organization has unconditionally guaranteed the performance obligations of RPAC Inc. to make all payments required under all agreements related to *Dominion Energy Center's* future operations and the *Altria Theater* renovations and future operations.

10. Commitments and Contingencies, Continued:

Pursuant to its articles of incorporation, the Organization has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Organization's request in such capacities. Pursuant to the Comprehensive Agreement with the City of Richmond, agreements related to the tax credit financing arrangements, and several other contractual agreements, RPAC Inc. and the Organization have provided various indemnifications to third parties.

The maximum liability under these obligations is not estimable; however, the Organization believes that the estimated fair value of these indemnification obligations is not material to the Organization's financial position.

11. Temporarily Restricted Net Assets:

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

	2018	2017
Cash and cash equivalents	$ 38,800	$ 68,751
Pledges receivable	2,181,499	2,768,908
Income from endowment	461,243	396,157
	$ 2,681,542	$ 3,233,816

Temporarily restricted net assets were donor-restricted for the following at June 30:

	2018	2017
Operations	$ 48,920	$ 38,500
Education and programming	38,800	53,750
Capital expenditures/*Altria Theater* renovation	2,132,579	2,745,409
Income from endowment	461,243	396,157
	$ 2,681,542	$ 3,233,816

During 2018, net assets released from restriction totaling $261,075 were used for education and programming, and $803,090 were primarily 2018 collections on capital pledges where the capital expenditures had been incurred in previous years related to the renovation of *Altria Theater*.

During 2017, net assets released from restriction totaling $79,004 were used for education and programming, $180,000 were used for rent subsidies for resident companies and related costs, and $414,443 were primarily 2017 collections on capital pledges where the capital expenditures had been incurred in previous years related to the renovation of *Altria Theater*.

12. Permanently Restricted Net Assets:

Permanently restricted net assets consist of assets endowed to the Organization, of which the principal is to be held in perpetuity and any related income generated used to fund future programs. Permanently restricted net assets consisted of the following at June 30:

	2018	2017
Cash and cash equivalents	$ -	$ 44,303
Pledges receivable	15,000	37,127
Investments	2,248,820	2,173,084
	$ 2,263,820	$ 2,254,514

The Organization has a goal to raise $10 million towards its endowment.

13. Endowment Funds:

The Organization has received donor-restricted contributions in the form of cash and pledges intended to establish the Organization's endowment fund. As required by accounting principles generally accepted in the United States, the net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Organization has interpreted the Virginia State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of original gifts received and designated as endowments. As a result of this interpretation, the Organization would classify as permanently restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 funds not classified as permanently restricted net assets would be classified as temporarily restricted net assets until those amounts appropriated for expenditure are disbursed in accordance with the donor restrictions in a manner consistent with the standard of prudence prescribed by SPMIFA.

13. Endowment Funds, Continued:

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate funds in the endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and a donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Return Objectives and Risk Parameters: In March 2015, the Organization adopted a policy for the endowment fund that attempts to provide a predictable stream of funding to the Organization's program(s) supported by the endowment. The adopted policy incorporates investment and spending practices to maintain the purchasing power of the endowment assets. Endowment assets include donor-restricted contributions that the Organization must hold in perpetuity. Under this policy, the endowment assets, at the present, are to be invested in one or more broadly diversified funds holding both equities and fixed income instruments. As the endowment fund grows, further investment diversification alternatives will be considered.

The Organization expects its endowment funds over time to provide an average rate of return of more than five percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization invests in a balanced mutual fund in the moderate allocation category. The mutual fund offers exposure to stocks (about two-thirds of the portfolio) and bonds (about one-third of the portfolio). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Organization has an endowment goal of $10,000,000 and has a policy of limiting spending of investment income until the goal is achieved. In establishing this policy, the Organization considered the long-term expected return on endowments and believes that an endowment this size will generate sufficient income to support the Organization's expected spending levels.

13. Endowment Funds, Continued:

Funds with Deficits: 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 SPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2018 or 2017.

Endowment net asset composition by type of fund was as follows as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 461,243	$ 2,263,820	$ 2,725,063

Changes in endowment net assets were as follows for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ -	$ 396,157	$ 2,254,514	$ 2,650,671
Investment return:				
Investment income	-	70,691	-	70,691
Realized net gain	-	107,389	-	107,389
Unrealized net gain	-	913	-	913
Total investment return	-	178,993	-	178,993
New contributions	-	-	9,306	9,306
Appropriations for expenditure	-	(113,907)	-	(113,907)
Net assets, end of year	$ -	$ 461,243	$ 2,263,820	$ 2,725,063

13. Endowment Funds, Continued:

Endowment net asset composition by type of fund was as follows as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 396,157	$ 2,254,514	$ 2,650,671

Changes in endowment net assets were as follows for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ -	$ 107,168	$ 2,243,508	$ 2,350,676
Investment return:				
Investment income	-	77,873	-	77,873
Realized net gain	-	46,007		46,007
Unrealized net gain	-	165,109	-	165,109
Total investment return	-	288,989	-	288,989
New contributions	-	-	11,006	11,006
Net assets, end of year	$ -	$ 396,157	$ 2,254,514	$ 2,650,671

14. Fair Value Measurements:

The FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.

Level 3 Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for investments carried or disclosed at fair value:

Mutual funds: Valued at the net asset value ("NAV") of shares held by the Organization at year end.

The Organization's investments are in a mutual fund that invests in value stocks (60% to 70%) and fixed income securities (30% to 40%), and the fair value of $2,710,063 at June 30, 2018 and of $2,569,242 at June 30, 2017 was based upon Level 1 valuation criteria.

15. Retirement Plan:

Employees of the Organization may participate in a 401(k) savings plan, whereby the employees may elect to make contributions pursuant to a salary reduction agreement upon meeting the plan requirements. The Organization may make discretionary contributions to the plan. The Organization's contributions to the plan amounted to $5,031 during 2018 and $4,708 during 2017.