

THE PEOPLE'S LIGHT AND THEATRE COMPANY

**Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

THE PEOPLE'S LIGHT AND THEATRE COMPANY
Consolidated Financial Statements
For the Years Ended August 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The People's Light and Theatre Company

We have audited the accompanying consolidated financial statements of The People's Light and Theatre Company and its subsidiary, which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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.

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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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The People's Light and Theatre Company and its subsidiary as of August 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mitchell Titus, LLP

January 28, 2019

THE PEOPLE'S LIGHT AND THEATRE COMPANY
Consolidated Statements of Financial Position
As of August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,516,079	\$ 2,142,428
Investments	7,607,237	6,696,969
Contributions receivable	1,042,747	1,491,151
Other receivables	35,382	36,592
Prepaid expenses	393,198	300,963
Deferred expenses	103,239	108,785
Total current assets	<u>10,697,882</u>	<u>10,776,888</u>
Contributions receivable, net	1,352,078	2,215,608
Property and equipment, net of accumulated depreciation	3,368,282	3,573,485
Other assets	25,106	79,138
Total assets	<u><u>\$ 15,443,348</u></u>	<u><u>\$ 16,645,119</u></u>
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 320,089	\$ 262,334
Deferred revenue	885,180	972,304
Current portion of mortgage payable	71,965	69,180
Total current liabilities	<u>1,277,234</u>	<u>1,303,818</u>
Mortgage payable	<u>1,246,407</u>	<u>1,318,371</u>
Total liabilities	<u>2,523,641</u>	<u>2,622,189</u>
NET ASSETS		
Unrestricted	5,005,921	4,740,228
Temporarily restricted	1,564,335	2,950,102
Permanently restricted	6,349,451	6,332,600
Total net assets	<u>12,919,707</u>	<u>14,022,930</u>
Total liabilities and net assets	<u><u>\$ 15,443,348</u></u>	<u><u>\$ 16,645,119</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

THE PEOPLE'S LIGHT AND THEATRE COMPANY
Consolidated Statements of Activities

	Year Ended August 31, 2018				Year Ended August 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<i>Earned revenue</i>								
Subscription series tickets	\$ 817,024	\$ -	\$ -	\$ 817,024	\$ 805,871	\$ -	\$ -	\$ 805,871
Single ticket income	980,565	-	-	980,565	829,019	-	-	829,019
Tuition and fees	91,810	-	-	91,810	96,020	-	-	96,020
Other income	243,465	-	-	243,465	255,465	-	-	255,465
Catering and restaurant	1,186,797	-	-	1,186,797	889,794	-	-	889,794
Dividend and interest income	173,402	-	-	173,402	151,750	-	-	151,750
Total earned revenue	<u>3,493,063</u>	<u>-</u>	<u>-</u>	<u>3,493,063</u>	<u>3,027,919</u>	<u>-</u>	<u>-</u>	<u>3,027,919</u>
<i>Contribution revenue</i>								
Donations and government grants	1,476,224	213,418	16,851	1,706,493	1,043,693	673,294	18,351	1,735,338
Fundraising event revenue	328,661	500	-	329,161	389,940	500	-	390,440
Cost of fundraising events	(141,839)	-	-	(141,839)	(178,958)	-	-	(178,958)
Net assets released from restrictions	1,599,685	(1,599,685)	-	-	2,965,538	(2,965,538)	-	-
Total contribution revenue	<u>3,262,731</u>	<u>(1,385,767)</u>	<u>16,851</u>	<u>1,893,815</u>	<u>4,220,213</u>	<u>(2,291,744)</u>	<u>18,351</u>	<u>1,946,820</u>
Total earned and contribution revenue	<u>6,755,794</u>	<u>(1,385,767)</u>	<u>16,851</u>	<u>5,386,878</u>	<u>7,248,132</u>	<u>(2,291,744)</u>	<u>18,351</u>	<u>4,974,739</u>
<i>Program services</i>								
<i>Mainstage series</i>								
Salaries, fees and benefits	2,127,986	-	-	2,127,986	1,961,717	-	-	1,961,717
Other production costs	684,051	-	-	684,051	627,318	-	-	627,318
<i>Arts education program</i>								
Theater school and tours	169,983	-	-	169,983	201,539	-	-	201,539
<i>Operating costs</i>								
Occupancy	417,317	-	-	417,317	482,219	-	-	482,219
Catering and restaurant	795,019	-	-	795,019	719,505	-	-	719,505
Interest	53,482	-	-	53,482	47,890	-	-	47,890
Total program services	<u>4,247,838</u>	<u>-</u>	<u>-</u>	<u>4,247,838</u>	<u>4,040,188</u>	<u>-</u>	<u>-</u>	<u>4,040,188</u>
<i>Support services</i>								
Administration	1,362,597	-	-	1,362,597	1,259,373	-	-	1,259,373
Promotion	556,776	-	-	556,776	733,095	-	-	733,095
Fundraising	476,262	-	-	476,262	496,196	-	-	496,196
Total support services	<u>2,395,635</u>	<u>-</u>	<u>-</u>	<u>2,395,635</u>	<u>2,488,664</u>	<u>-</u>	<u>-</u>	<u>2,488,664</u>
Total expenses before depreciation	<u>6,643,473</u>	<u>-</u>	<u>-</u>	<u>6,643,473</u>	<u>6,528,852</u>	<u>-</u>	<u>-</u>	<u>6,528,852</u>
Earned and contributed revenue over (under) expenses before taxes, depreciation and gains	<u>112,321</u>	<u>(1,385,767)</u>	<u>16,851</u>	<u>(1,256,595)</u>	<u>719,280</u>	<u>(2,291,744)</u>	<u>18,351</u>	<u>(1,554,113)</u>
Income tax benefit (expense)	(54,032)	-	-	(54,032)	45,538	-	-	45,538
Depreciation	(359,768)	-	-	(359,768)	(350,908)	-	-	(350,908)
Net realized and unrealized gains	567,172	-	-	567,172	591,073	-	-	591,073
Total taxes, depreciation, and gains	<u>153,372</u>	<u>-</u>	<u>-</u>	<u>153,372</u>	<u>285,703</u>	<u>-</u>	<u>-</u>	<u>285,703</u>
Change in net assets	265,693	(1,385,767)	16,851	(1,103,223)	1,004,983	(2,291,744)	18,351	(1,268,410)
Net assets, at beginning of year	<u>4,740,228</u>	<u>2,950,102</u>	<u>6,332,600</u>	<u>14,022,930</u>	<u>3,735,245</u>	<u>5,241,846</u>	<u>6,314,249</u>	<u>15,291,340</u>
Net assets, at end of year	<u>\$ 5,005,921</u>	<u>\$ 1,564,335</u>	<u>\$ 6,349,451</u>	<u>\$ 12,919,707</u>	<u>\$ 4,740,228</u>	<u>\$ 2,950,102</u>	<u>\$ 6,332,600</u>	<u>\$ 14,022,930</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Consolidated Statements of Cash Flows

Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,103,223)	\$ (1,268,410)
<i>Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities</i>		
Depreciation	359,768	350,908
Net change in fair value of investments	(734,238)	(734,897)
<i>Change in operating assets and liabilities</i>		
Change in other receivables	1,210	(5,198)
Change in contributions receivable	1,311,934	3,163,736
Change in prepaid and deferred expenses	(86,689)	(20,009)
Change in other assets	54,032	(45,538)
Change in deferred revenue	(87,124)	100,338
Change in accounts payable and accrued expenses	57,755	(134,009)
Net cash (used in) provided by operating activities	<u>(226,575)</u>	<u>1,406,921</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(154,565)	(835,025)
Proceeds from sales of investments	1,073,970	2,412,097
Purchase of investments	<u>(1,250,000)</u>	<u>(2,750,000)</u>
Net cash used in investing activities	<u>(330,595)</u>	<u>(1,172,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of mortgage payable	<u>(69,179)</u>	<u>(72,421)</u>
Net cash used in financing activities	<u>(69,179)</u>	<u>(72,421)</u>
Net (decrease) increase in cash and cash equivalents	(626,349)	161,572
Cash and cash equivalents, at beginning of year	<u>2,142,428</u>	<u>1,980,856</u>
Cash and cash equivalents, at end of year	<u><u>\$ 1,516,079</u></u>	<u><u>\$ 2,142,428</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 1 ORGANIZATION

The People's Light and Theatre Company (the Theatre), located in Malvern, Pennsylvania, is a non-profit theatre exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The mission of the Theatre is to produce plays drawn from many sources to entertain, inspire, and engage its community. The mission is extended by making and experiencing theatre through arts education programs that excite curiosity about—and deepen understanding of—the world around us.

Arts Discovery, the Theatre's arts education program, is an integral part of the Theatre. The six components of this program enable the Theatre to reach a broad cross-section of the community by bringing students and families to the Theatre, enabling teaching artists to share theater techniques with teachers and students in school residencies, and providing a creative, diverse, and supportive environment for young people to take risks and grow. The varied programs reach approximately 11,000 youngsters and their families annually, and expenses are included in production and education costs.

The consolidated financial statements include the results of the Theatre's wholly owned subsidiary, Actors' Inn, Inc. Actors' Inn is a full-service restaurant and catering facility that provides hospitality services for both audience members and the surrounding community. All significant inter-company transactions have been eliminated in consolidation.

During fiscal 2017, after two years of extensive planning, the Theatre completed a 2,000-square-foot expansion adjacent to its existing ballroom and restaurant facility in order to increase capacity and use of its event space. As a result, the catering operations were suspended for a five-month period, which accounts for the lower catering revenue and expense during fiscal 2017 as compared to fiscal 2018.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Net Asset Classifications

To ensure compliance with restrictions placed on the resources available to the Theatre, funds with similar characteristics have been classified into three net asset categories: unrestricted, temporarily restricted, and permanently restricted.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Asset Classifications *(continued)*

Unrestricted net assets are not subject to donor-imposed restrictions, or the donor-imposed restrictions have expired.

Temporarily restricted net assets are subject to donor-imposed restrictions that permit the Theatre to use or expend the assets for specified purposes or under specified terms. The restrictions are satisfied either by the passage of time or by the actions of the Theatre. At August 31, 2018 and 2017, the majority of the temporarily restricted contributions represented unconditional promises to give with payments due in future periods.

Permanently restricted net assets are those funds subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be used to support Theatre operations.

Revenue Recognition

Contributions are recorded as revenue when received or pledged. Temporarily restricted contributions are reclassified as unrestricted contributions and reported as net assets released from restrictions when a stipulated time restriction ends or donor restrictions have been met. Ticket sales collected for performances of the upcoming season are included in deferred revenue and recognized as increases in unrestricted net assets in the period performances are conducted.

Receipts of unconditional promises to give with payments due in future periods are recorded as contributions receivable at their fair value using a present value technique and recognized as increases to temporarily restricted net assets at the date of promise. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, will be recognized when the conditions on which they depend are substantially met.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand and demand and time deposits with financial institutions with maturities of three months or less from the acquisition date.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Receivables

Contributions receivable represent donor promises to give that are documented in writing and legally binding. Contributions receivable are included in unrestricted, temporarily restricted, or permanently restricted net assets based on the existence and nature of donor-imposed restrictions and, if applicable, will be released upon satisfaction of those restrictions.

Investments

Investments are recorded at fair value.

Investments as of August 31, 2018 and 2017 consist principally of shares in the Vanguard Group's 500 Index, the Vanguard Total Stock Market Index, the Vanguard Intermediate-Term Investment Grade Index, the Developing Markets Index, the Emerging Markets Stock Index, and the Total International Stock Market Index. Investments are valued based on quoted market values as of August 31, 2018 and 2017.

Realized and unrealized gains and losses are included in the consolidated statements of activities as increases or decreases in unrestricted net assets, unless donor or relevant laws place temporary or permanent restrictions on these gains and losses. For purposes of determining the gain or loss on a sale, the cost of the securities sold is based on the average cost of each security held at the date of sale. Purchases and sales are recorded on a trade-date basis.

Property and Equipment

Furniture and equipment, building improvements, and buildings are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets. These assets are depreciated over periods of three to 39 years.

Deferred Expense

Expenses for performances of the upcoming season that are primarily advertising costs are included in deferred expenses and recognized as decreases in unrestricted net assets in the period that performances are conducted.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income Taxes

The Theatre evaluates tax positions taken or expected to be taken in the course of preparing its tax returns to determine whether it is more-likely-than-not (*i.e.*, greater than 50%) that each tax position will be sustained upon examination by a taxing authority based on the technical merits of the position. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. If applicable, the Theatre recognizes interest accrued related to uncertain tax positions in interest expense on the consolidated statements of activities. However, management's conclusions regarding tax positions taken may be subject to review and adjustment at a future date based on factors including, but not limited to, examination by tax authorities, ongoing analysis of and changes to tax laws, and related regulations and interpretations. During the year, the Theatre did not incur any interest or penalties.

Management has evaluated the tax positions of the Theatre and concluded that there are no uncertain tax positions that require recognition or further disclosure in the notes to the consolidated financial statements. The Theatre is subject to audits by taxing jurisdictions; however, no audits for any periods are currently in progress. Management believes that the Theatre is no longer subject to such audits for years prior to 2014 under Federal, state, and local tax jurisdictions.

During the year ended August, 31, 2018, the Theatre's taxable income earned from its wholly owned subsidiary, Actors' Inn, was \$109,228. This amount was appropriately netted against the prior-year net operating loss carryforward. The net operating loss carryforward for the Theatre as of August 31, 2018 and 2017 is approximately \$80,987 and \$190,215, respectively, which expire at various dates from 2032 through 2037. The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%. Due to the change in tax rates, the Theatre has recorded an adjustment of \$15,802, resulting in a deferred tax asset of \$25,106 at August 31, 2018. The deferred tax asset was \$79,138 at August 31, 2017.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, primarily to clarify the principles for recognizing revenue. This topic specifies the accounting for revenue with contracts from customers. The core principle is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for the Theatre for fiscal 2020 and will be applied retrospectively. The Theatre is currently evaluating the impact that this ASU will have on the presentation of the consolidated financial statements and disclosures.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recently Issued Accounting Standards *(continued)*

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The guidance simplifies and improves information on the financial statements and notes regarding net asset classification, liquidity, financial performance and cash flows. The main provisions of this ASU require a not-for-profit entity to: present on the face of the statement of financial position amounts for two classes of net assets, rather than three; present the amount of the change in both of the two classes of net assets; provide enhanced disclosures; and report investment return net of external and direct internal investment expenses. The amendments in this ASU are effective for the Theatre for fiscal 2019 and will be applied retrospectively. The Theatre is currently evaluating the impact that this ASU will have on the presentation of the consolidated financial statements and disclosures.

In May 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU was issued in response to the diversity and difficulty in practice with regards to exchange transactions and unconditional and conditional contributions. The guidance for contributions received would be applicable for annual periods beginning after December 15, 2018, and the guidance for contributions made would be applicable for annual periods beginning after December 19, 2019. The Theatre is currently evaluating the impact that this ASU will have on the presentation of the consolidated financial statements and disclosures.

NOTE 3 CONTRIBUTIONS RECEIVABLE, NET

The anticipated collection of net contributions and grants receivable was as follows:

	<u>2018</u>	<u>2017</u>
Within one year	\$ 1,042,747	\$ 1,491,151
One to five years	<u>1,352,078</u>	<u>2,215,608</u>
Total	<u><u>\$ 2,394,825</u></u>	<u><u>\$ 3,706,759</u></u>

The fair value adjustment associated with multi-year pledges was \$63,422 and \$72,891 at August 31, 2018 and 2017, respectively. The fair value adjustment was determined utilizing a present value technique and a discount factor of 3% and 2% for the years ended August 31, 2018 and 2017, respectively. No allowance for doubtful amounts is considered necessary at August 31, 2018 or 2017.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 4 INVESTMENTS

Fair value is defined as the price that the Theatre would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tier hierarchy is utilized to maximize the use of observable market data and minimize the use of unobservable inputs to establish the classification of fair value measurements for disclosure purposes. Accordingly, the fair value hierarchy gives the highest priority to quoted market prices (unadjusted) in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical, unrestricted assets, or liabilities that the Theatre has the ability to access at the measurement date.

Level 2: Quoted prices that are not active or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability.

Level 3: Prices, inputs, or exotic modeling techniques that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those assets.

As required by U.S. GAAP, an investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 4 INVESTMENTS (continued)

The tables below set forth information about the level within the fair value hierarchy at which the Theatre's investments were measured as of August 31, 2018 and 2017:

	August 31, 2018			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 1,200,670	\$ 1,200,670	\$ -	\$ -
Equity mutual funds	5,463,300	5,463,300	-	-
Fixed income mutual fund	2,143,937	2,143,937	-	-
Total	\$ 8,807,907	\$ 8,807,907	\$ -	\$ -

	August 31, 2017			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 1,896,040	\$ 1,896,040	\$ -	\$ -
Equity mutual funds	4,522,491	4,522,491	-	-
Fixed income mutual fund	2,174,478	2,174,478	-	-
Total	\$ 8,593,009	\$ 8,593,009	\$ -	\$ -

NOTE 5 PROPERTY AND EQUIPMENT, NET

Property and equipment, net at August 31, 2018 and 2017 consisted of the following:

	2018	2017
Land	\$ 124,494	\$ 124,494
Buildings	4,846,233	4,813,351
Building improvements	2,742,300	2,705,511
Furniture and equipment	1,208,177	1,144,407
Subtotal	8,921,204	8,787,763
Less: Accumulated depreciation	(5,552,922)	(5,214,278)
Total	\$ 3,368,282	\$ 3,573,485

NOTE 6 DEBT

During fiscal 2017, the Theatre refinanced its existing mortgage. The loan bears interest at a rate of 3.90% and is being amortized over 20 years, with a balloon payment due on August 12, 2024. Prior to refinancing, the loan bore interest at a rate of 3.25% and was being amortized over 20 years, with a balloon payment due on April 12, 2019. It is secured by land, buildings, and improvements.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 6 DEBT (continued)

The Theatre has a line of credit, with the same lending institution, in the amount of \$500,000, which matures on demand. The interest rate on this facility at August 31, 2018 and 2017 was the prime rate plus 0.50%. The line is secured by land, buildings, and improvements. There were no borrowings against the line of credit at August 31, 2018 and 2017, respectively.

In fiscal years 2018 and 2017, interest paid was \$53,624 and \$47,538, respectively.

The following table summarizes the principal and interest payments due for debt through maturity, as of August 31, 2018:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 71,965	\$ 50,837	\$ 122,802
2020	74,730	48,073	122,803
2021	77,872	44,930	122,802
2022	81,008	41,795	122,803
2023	84,270	38,533	122,803
2024	928,526	35,237	963,763
Total	<u>\$ 1,318,371</u>	<u>\$ 259,405</u>	<u>\$ 1,577,776</u>

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of August 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Foundation contributions	\$ 442,098	\$ 1,246,542
Corporate and government contributions	25,000	75,000
Individual Contributions	1,097,237	1,628,560
Total	<u>\$ 1,564,335</u>	<u>\$ 2,950,102</u>

Of these amounts, \$1,296,302 and \$2,096,784 were restricted due to time restrictions at August 31, 2018 and 2017, respectively, and \$268,033 and \$853,318 were purpose restrictions at August 31, 2018 and 2017, respectively.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 7 **TEMPORARILY RESTRICTED NET ASSETS** *(continued)*

During the years ended August 31, 2018 and 2017, \$1,599,685 and \$2,965,538, respectively, were released from temporarily restricted net assets and used for the Theatre's primary purpose. Of these amounts, \$830,950 and \$2,277,500 were released from time restrictions for the years ended August 31, 2018 and 2017, respectively, and \$768,735 and \$688,038 were released from purpose restrictions for the years ended August 31, 2018 and 2017, respectively.

NOTE 8 **ENDOWMENTS AND PERMANENTLY RESTRICTED NET ASSETS**

Effective September 1, 2009, the Theatre adopted the provisions as required of the *Reporting of Endowment Funds Topic* of the FASB ASC 958-205-50. The ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The ASC requires disclosures about all endowment funds, including both donor-restricted endowment funds and management-designated endowment funds. (The Theatre's endowment includes only donor-restricted endowment funds.) As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not adopted UPMIFA. State law allows non-profit organizations to adopt a total return investment policy as provided by Act 141 (1988) of Pennsylvania legislature 15 Pa.C.S.A Section 5548 ("total return election"). During fiscal 2015, the Theatre elected that its endowment fund (Fund) be governed by the provisions of Section 5548.

Endowment Investment Return Objectives and Risk Parameters

Under this election, the Investment Committee of the Board of Trustees annually determines the average fair value of the assets of the Fund over the three preceding fiscal years (Fund Value), and selects a percentage of no less than 2% or more than 7% of the Fund Value to determine the income from the Fund. The percentage elected annually is consistent with the long-term preservation of the real value of the Fund.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Theatre relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Theatre 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.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 8 ENDOWMENTS AND PERMANENTLY RESTRICTED NET ASSETS*(continued)*Spending Policy

The Theatre periodically makes distributions from the endowment funds for purposes designated by donors.

Endowment funds and permanently restricted net assets as of August 31, 2018 and 2017 were as follows:

	Permanently Restricted	
	2018	2017
Donor-restricted endowment funds	\$ 6,349,451	\$ 6,332,600
Total	\$ 6,349,451	\$ 6,332,600

Changes in endowment funds for the years ended August 31, 2018 and 2017 were as follows:

	Permanently Restricted	
	2018	2017
Endowment net assets, beginning of year	\$ 6,332,600	\$ 6,314,249
Contributions	16,851	18,351
Endowment net assets, end of year	\$ 6,349,451	\$ 6,332,600

Permanently restricted net assets are to be held in perpetuity. Investment income earned on permanently restricted net assets is recorded as temporarily restricted or unrestricted net assets based on donor stipulations.

NOTE 9 LEAGUE OF RESIDENT THEATRES

The Theatre is a member of the League of Resident Theatres (LORT), which entered into an agreement (LORT Agreement) with the Actors' Equity Association on May 31, 1991. The LORT Agreement requires the Theatre to contribute a fixed amount per week, per actor, to the Equity-League Health Benefits Trust Fund, to provide hospitalization and medical benefits. Health benefit expenses were \$98,040 and \$79,040 for the years ended August 31, 2018 and 2017, respectively. The LORT Agreement also requires the Theatre to contribute to the Equity-League Pension Trust Fund a fixed percentage of gross actor payroll to provide pension benefits. Pension expenses under the agreement for the years ended August 31, 2018 and 2017 were \$36,739 and \$30,314, respectively.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

NOTE 9 LEAGUE OF RESIDENT THEATRES *(continued)*

In addition, the Theatre renewed its letter of credit in the amount of \$45,493 that can only be drawn by the Actors' Equity Association in the case of non-payment of payroll and related benefits. The outstanding balance was \$0 at August 31, 2018 and 2017.

NOTE 10 PENSION PLAN

The Theatre offers a defined contribution salary deferral plan covering all full-time, non-union, and non-commissioned employees. Under the terms of the plan, the Theatre's contributions are based on years of service and the employee's contribution election. Plan expenses for the years ended August 31, 2018 and 2017 were \$81,946 and \$89,281, respectively.

NOTE 11 ADVERTISING EXPENSES

The Theatre employs several methods of advertising to market its programs to the public. Advertising expenses in fiscal 2018 and 2017 were \$344,393 and \$340,563, respectively.

NOTE 12 SUBSEQUENT EVENTS

In preparing the consolidated financial statements, the Theatre evaluated events and transactions for potential recognition or disclosure through January 28, 2019, the date that the consolidated financial statements were available to be issued.

