

THE PEOPLE'S LIGHT AND THEATRE COMPANY

**Consolidated Financial Statements
For the Years Ended August 31, 2021 and 2020
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, 2021 and 2020

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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, 2021 and 2020, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 financial position of The People's Light and Theatre Company and its subsidiary as of August 31, 2021 and 2020, 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 of America.

Mitchell Titus, LLP

January 27, 2022

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Consolidated Statements of Financial Position

As of August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,589,751	\$ 2,537,848
Investments	4,736,037	3,026,386
Contributions receivable	2,468,876	2,570,288
Other receivables	4,836	33,594
Prepaid expenses	266,197	208,236
Deferred expenses	14,876	53,536
Total current assets	<u>11,080,573</u>	<u>8,429,888</u>
<i>Non-current assets</i>		
Contributions receivable, net	2,855,169	5,288,366
Property and equipment, net	2,932,995	2,954,182
Deferred tax asset	185,433	121,554
Long-term investments	7,369,124	6,369,124
Total non-current assets	<u>13,342,721</u>	<u>14,733,226</u>
Total assets	<u><u>\$ 24,423,294</u></u>	<u><u>\$ 23,163,114</u></u>
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 287,832	\$ 246,253
Deferred revenue	1,175,482	767,468
Current portion of mortgage payable	81,008	77,872
Total current liabilities	<u>1,544,322</u>	<u>1,091,593</u>
<i>Non-current liabilities</i>		
Loans payable	900,055	859,070
Mortgage payable	1,012,797	1,093,805
Total liabilities	<u>3,457,174</u>	<u>3,044,468</u>
NET ASSETS		
<i>Without donor restrictions</i>		
Undesignated	2,601,156	2,235,624
Board-designated endowment	4,736,037	3,026,386
With donor restrictions	13,628,927	14,856,636
Total net assets	<u>20,966,120</u>	<u>20,118,646</u>
Total liabilities and net assets	<u><u>\$ 24,423,294</u></u>	<u><u>\$ 23,163,114</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, 2021			Year Ended August 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<i>Earned revenue</i>						
Subscription series tickets	\$ 27,077	\$ -	\$ 27,077	\$ 427,055	\$ -	\$ 427,055
Single ticket income	54,444	-	54,444	579,008	-	579,008
Tuition and fees	31,452	-	31,452	35,463	-	35,463
Other income	180,926	-	180,926	197,414	-	197,414
Catering and restaurant	583,897	-	583,897	548,830	-	548,830
Dividend and interest income	195,613	-	195,613	188,741	-	188,741
Total earned revenue	1,073,409	-	1,073,409	1,976,510	-	1,976,510
<i>Contribution revenue</i>						
Donations and government grants	1,637,635	357,484	1,995,119	2,233,109	3,257,035	5,490,144
Fundraising event revenue	190,677	1,500	192,177	426,087	500	426,587
Cost of fundraising events	(32,199)	-	(32,199)	(204,467)	-	(204,467)
Net assets released from restrictions	1,586,693	(1,586,693)	-	1,208,619	(1,208,619)	-
Total contribution revenue	3,382,806	(1,227,709)	2,155,097	3,663,348	2,048,916	5,712,264
Total earned and contribution revenue	4,456,215	(1,227,709)	3,228,506	5,639,858	2,048,916	7,688,774
<i>Program services</i>						
Artistic and production	1,532,178	-	1,532,178	2,618,641	-	2,618,641
Education	239,502	-	239,502	243,012	-	243,012
Farmhouse operations	726,733	-	726,733	664,655	-	664,655
Total program services	2,498,413	-	2,498,413	3,526,308	-	3,526,308
<i>Supporting services</i>						
General administration	1,143,907	-	1,143,907	1,211,607	-	1,211,607
Marketing and patron services	720,840	-	720,840	938,816	-	938,816
Fundraising	490,504	-	490,504	595,395	-	595,395
Total supporting services	2,355,251	-	2,355,251	2,745,818	-	2,745,818
Total expenses before taxes	4,853,664	-	4,853,664	6,272,126	-	6,272,126
Earned and contributed revenue (under) over expenses before taxes, forgiveness of debt and gains	(397,449)	(1,227,709)	(1,625,158)	(632,268)	2,048,916	1,416,648
Income tax benefit	63,879	-	63,879	97,748	-	97,748
Forgiveness of debt	709,070	-	709,070	-	-	-
Net realized and unrealized gains	1,699,683	-	1,699,683	983,644	-	983,644
Total taxes, forgiveness of debt and gains	2,472,632	-	2,472,632	1,081,392	-	1,081,392
Change in net assets	2,075,183	(1,227,709)	847,474	449,124	2,048,916	2,498,040
Net assets, at beginning of year	5,262,010	14,856,636	20,118,646	4,812,886	12,807,720	17,620,606
Net assets, at end of year	\$ 7,337,193	\$ 13,628,927	\$ 20,966,120	\$ 5,262,010	\$ 14,856,636	\$ 20,118,646

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

THE PEOPLE'S LIGHT AND THEATRE COMPANY
Consolidated Statement of Functional Expenses
Year Ended August 31, 2021

	Program Services				Supporting Services				Total Expenses 2021
	Artistic and Production	Education	Farmhouse Operations	Total	General Administration	Marketing and Patron Services	Fundraising	Total	
Salaries	\$ 910,453	\$ 129,918	\$ 347,343	\$ 1,387,714	\$ 374,445	\$ 334,220	\$ 269,865	\$ 978,530	\$ 2,366,244
Payroll taxes	51,598	8,802	28,250	88,650	28,494	19,528	14,370	62,392	151,042
Employee benefits	249,991	18,429	65,365	333,785	62,570	54,023	56,420	173,013	506,798
Fees	77,241	-	-	77,241	37,970	-	-	37,970	115,211
Royalties	17,541	-	-	17,541	-	-	-	-	17,541
Advertising expenses	-	1,395	26,075	27,470	-	195,409	-	195,409	222,879
Audit and legal	-	-	-	-	58,578	-	-	58,578	58,578
Cost of goods	-	-	155,601	155,601	-	-	-	-	155,601
Donor relations	-	-	-	-	-	-	10,759	10,759	10,759
Dues and conferences	-	-	-	-	24,430	673	1,591	26,694	26,694
Insurance	-	-	8,215	8,215	90,512	-	-	90,512	98,727
Interest	10,441	10,441	1,092	21,974	10,441	10,441	10,441	31,323	53,297
Occupancy	-	-	48,056	48,056	248,099	-	-	248,099	296,155
Other	47,167	9,326	25,231	81,724	73,224	12,692	56,645	142,561	224,285
Printing and supplies	821	-	430	1,251	8,244	582	8,280	17,106	18,357
Production materials	80,369	-	-	80,369	-	-	-	-	80,369
Software and equipment	-	-	-	-	64,304	-	-	64,304	64,304
Subscriptions	-	-	-	-	-	32,080	-	32,080	32,080
Supplies and tools	3,624	-	-	3,624	-	-	-	-	3,624
Travel and housing	21,741	-	3,000	24,741	1,404	-	941	2,345	27,086
Depreciation	61,191	61,191	18,075	140,457	61,192	61,192	61,192	183,576	324,033
Total expenses	\$ 1,532,178	\$ 239,502	\$ 726,733	\$ 2,498,413	\$ 1,143,907	\$ 720,840	\$ 490,504	\$ 2,355,251	\$ 4,853,664

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

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Consolidated Statement of Functional Expenses

Year Ended August 31, 2020

	Program Services				Supporting Services				Total Expenses 2020
	Artistic and Production	Education	Farmhouse Operations	Total	General Administration	Marketing and Patron Services	Fundraising	Total	
Salaries	\$ 1,422,600	\$ 116,332	\$ 313,690	\$ 1,852,622	\$ 378,783	\$ 413,404	\$ 253,254	\$ 1,045,441	\$ 2,898,063
Payroll taxes	155,470	13,238	31,088	199,796	33,871	41,845	24,142	99,858	299,654
Employee benefits	316,673	14,878	56,368	387,919	60,545	54,865	57,975	173,385	561,304
Fees	197,356	-	-	197,356	38,623	-	-	38,623	235,979
Royalties	95,312	-	-	95,312	-	-	-	-	95,312
Consultant fees	-	-	-	-	8,750	-	95,552	104,302	104,302
Advertising expenses	-	8,625	29,282	37,907	-	244,650	-	244,650	282,557
Audit and legal	-	-	-	-	55,135	-	-	55,135	55,135
Cost of goods	-	-	130,551	130,551	-	-	-	-	130,551
Donor relations	-	-	-	-	-	-	22,395	22,395	22,395
Dues and conferences	-	-	-	-	25,103	22,188	4,111	51,402	51,402
Insurance	-	-	10,302	10,302	102,255	-	-	102,255	112,557
Interest	9,583	9,583	-	19,166	9,587	9,583	9,583	28,753	47,919
Occupancy	-	-	31,133	31,133	235,640	-	-	235,640	266,773
Other	141,757	9,554	28,335	179,646	115,642	22,126	46,001	183,769	363,415
Printing and supplies	2,411	8,027	1,477	11,915	13,477	1,985	16,086	31,548	43,463
Production materials	159,220	-	-	159,220	-	-	-	-	159,220
Software and equipment	-	-	-	-	65,314	-	-	65,314	65,314
Subscriptions	-	-	-	-	-	64,011	-	64,011	64,011
Supplies and tools	9,552	-	-	9,552	-	-	-	-	9,552
Travel and housing	45,932	-	847	46,779	6,104	1,384	3,521	11,009	57,788
Depreciation	62,775	62,775	31,582	157,132	62,778	62,775	62,775	188,328	345,460
Total expenses	\$ 2,618,641	\$ 243,012	\$ 664,655	\$ 3,526,308	\$ 1,211,607	\$ 938,816	\$ 595,395	\$ 2,745,818	\$ 6,272,126

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 847,474	\$ 2,498,040
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Depreciation	324,033	345,460
Net realized and unrealized gains on investments	(1,699,683)	(983,644)
Forgiveness of debt-principal portion	(709,070)	-
<i>Change in operating assets and liabilities</i>		
Change in other receivables	28,758	28,232
Change in contributions receivable	2,534,609	(674,628)
Change in prepaid and deferred expenses	(19,301)	241,614
Change in deferred tax asset	(63,879)	(97,748)
Change in deferred revenue	408,014	15,261
Change in accounts payable and accrued expenses	41,579	(90,396)
Net cash provided by operating activities	<u>1,692,534</u>	<u>1,282,191</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(302,846)	(161,104)
Proceeds from sales of investments	843,178	4,921,789
Purchase of investments	<u>(1,853,146)</u>	<u>(5,307,298)</u>
Net cash used in investing activities	<u>(1,312,814)</u>	<u>(546,613)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans payable	750,055	859,070
Repayment of mortgage payable	<u>(77,872)</u>	<u>(74,731)</u>
Net cash provided by financing activities	<u>672,183</u>	<u>784,339</u>
Net increase in cash and cash equivalents	1,051,903	1,519,917
Cash and cash equivalents, at beginning of year	<u>2,537,848</u>	<u>1,017,931</u>
Cash and cash equivalents, at end of year	<u><u>\$ 3,589,751</u></u>	<u><u>\$ 2,537,848</u></u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u><u>\$ 44,931</u></u>	<u><u>\$ 48,073</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

Years Ended August 31, 2021 and 2020

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 an 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. Historically, the varied programs reach approximately 11,000 youngsters and their families annually, and expenses are included in production and education costs. Due to the COVID-19 pandemic, the Theatre's program reached approximately 2,000 students in fiscal year 2021.

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

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 two net asset categories: net assets with donor restrictions and net assets without donor restrictions.

Net Assets without Donor Restrictions are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired. Net assets without donor restrictions may also be designated for specific purposes by action of the Board of Directors.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

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

Net Asset Classifications *(continued)*

Net Assets with Donor Restrictions are subject to donor-imposed stipulations that may be met by actions of the Theatre pursuant to those stipulated and or by the passage of time.

Net assets subject to donor-imposed stipulations also include amounts that allow the principal to be invested in perpetuity and permit the income only be used to support Theatre operations.

Revenue Recognition

Contributions are recorded as revenue when received or pledged. Donor-restricted contributions are reclassified as contributions without donor restrictions and reported as net assets released from restrictions when a stipulated time restriction ends or donor restrictions have been met. Ticket sales collected for the upcoming season are included in deferred revenue and recognized as increases in net assets without donor restrictions 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 net assets with donor restrictions at the date of promise. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, are recognized when the conditions on which they depend are substantially met.

Government grants revenue is recognized in the period in which they are expended for cost reimbursement agreements. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, this revenue is generally considered nonreciprocal transactions restricted by the awarding agency for certain purposes. The Theatre recognizes grant revenue when the qualified expenditures are incurred and conditions under the grant agreements are met. Grant advances not yet spent are recorded as deferred revenue. Other grant revenue considered contributions are recorded as revenue in the period in which they are received.

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 consolidated financial statements. Actual results could differ from those estimates.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

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

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.

Receivables

Contributions receivable represent donor promises to give that are documented in writing and legally binding. Contributions receivable are included in net assets with donor restrictions and without donor restrictions based on the existence and nature of donor-imposed restrictions and, if applicable, are released upon satisfaction of those restrictions.

The Theatre provides an allowance for doubtful accounts for losses that may result from the inability of the debtor or donor to make payment on amounts owed or pledged to the Theatre. Such allowance is based on several factors, including, but not limited to, the age of the receivables and the Theatre's historical collection experience. Receivables that are determined to be uncollected are charged against the allowance. As of August 31, 2021 and 2020, no allowance for doubtful accounts was deemed necessary.

Investments

Investments are recorded at fair value.

Investments as of August 31, 2021 and 2020 consisted principally of shares in various mutual funds managed by the Vanguard Group. In October 2020, the Theatre engaged Vanguard's Institutional Advisory Services to manage the investment portfolio. Investments are valued based on quoted market values as of August 31, 2021 and 2020.

Realized and unrealized gains and losses are included in the consolidated statements of activities as increases or decreases in net assets without donor restrictions, unless donor or relevant laws place 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. Property and equipment additions with a useful life over two years are capitalized, with no restrictions on the cost of the asset. These assets are depreciated over periods of three to 39 years. Depreciation is recorded on a half-year convention in both the year of asset acquisition and disposal.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

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

Property and Equipment *(continued)*

The Theatre evaluates long-lived assets, which are held for use, for impairment whenever events or circumstances indicate that impairment may exist. An impairment loss is recorded if the net carrying value of the asset exceeds the undiscounted future net operating cash flows attributable to the asset. The impairment loss recognized equals the difference between cost and cash flows.

The Theatre has determined that no long-lived assets were impaired as of August 31, 2021 and 2020.

Deferred Expenses

Expenses for the upcoming season performances are primarily advertising costs, which are included in deferred expenses and recognized as decreases in net assets without donor restrictions in the period that performances are conducted.

Functional Allocation of Expenses

The costs associated with providing the Theatre's programs have been summarized on a functional basis in the accompanying consolidated statements of activities, which includes all expenses incurred during the year. Accordingly, certain costs, including salaries, have been allocated among the programs and supporting services benefited. Salaries and benefits have been allocated based on job function. Occupancy expenses have been allocated based on square footage. Interest and depreciation expenses have been allocated evenly across the Theatre's functional departments.

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 in 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.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

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

Income Taxes *(continued)*

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 2018 under Federal, state, and local tax jurisdictions.

During the year ended August 31, 2021, the Theatre had no taxable income earned from its wholly owned subsidiary, Actors' Inn, due to losses sustained during the COVID-19 pandemic. These losses increased the net operating loss (NOL) carryforward. The NOL carryforward for the Theatre as of August 31, 2021 and 2020 was approximately \$587,120 and \$377,414, respectively. Due to legislation enacted in 2017, the Tax Cuts and Jobs Act, the NOL carryforward will not expire. A valuation allowance has not been established as management anticipates using the NOL in future years.

Adopted Accounting Pronouncement

During fiscal year 2021, the Theatre adopted FASB ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised 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. ASU 2014-09 also expands the footnote disclosure requirements related to contracts with customers. The adoption of this ASU did not have a significant impact on the Theatre's consolidated financial statements. Under its current revenue recognition policy, the Theatre enters into service contracts and revenue is recognized as the performance obligation is met. Based on the Theatre's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenue as a result of the adoption.

Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 changes the accounting for leases, primarily by lessees in operating leases, by requiring (a) the recognition of (i) a lease asset (right of use) and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position and (ii) a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis, and (b) the classification of all lease payments within the operating activities in the statement of cash flows. In June 2020, the effective date of ASU 2016-02 was deferred to fiscal years beginning after December 15, 2021, which will be fiscal year 2023 for the Theatre. The Theatre is evaluating the requirements of ASU 2016-02 and its impact on the presentation of its consolidated financial statements and disclosures.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

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

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements.

NOTE 3 CONTRIBUTIONS RECEIVABLE, NET

The anticipated collection of net contributions receivable was as follows:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 2,468,876	\$ 2,570,288
One to five years	<u>2,883,750</u>	<u>5,356,000</u>
Total contributions receivable	5,352,626	7,926,288
Net present value discount	<u>(28,581)</u>	<u>(67,634)</u>
Net contributions receivable	<u>\$ 5,324,045</u>	<u>\$ 7,858,654</u>

Contributions expected to be collected beyond one year are adjusted to net present value by discounting future cash flows. Management used a discount factor based on the five-year Treasury rate of 0.70% and 0.78% for the years ended August 31, 2021 and 2020, respectively. The change in the net present value discount was \$39,053 and \$196,855 as of August 31, 2021 and 2020, respectively, and is reflected in donations and government grants on the consolidated statements of activities. No allowance for doubtful amounts was considered necessary as of August 31, 2021 or 2020.

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.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

NOTE 4 INVESTMENTS (continued)

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 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, 2021 and 2020:

	August 31, 2021			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>Cash equivalents</i>				
Money market funds	\$ 2,657,082	\$ 2,657,082	\$ -	\$ -
<i>Investments</i>				
Equity mutual funds	7,893,515	7,893,515	-	-
Fixed-income mutual fund	4,211,646	4,211,646	-	-
Total	<u>\$ 14,762,243</u>	<u>\$ 14,762,243</u>	<u>\$ -</u>	<u>\$ -</u>
	August 31, 2020			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>Cash equivalents</i>				
Money market funds	\$ 1,502,984	\$ 1,502,984	\$ -	\$ -
<i>Investments</i>				
Equity mutual funds	6,511,895	6,511,895	-	-
Fixed-income mutual fund	2,883,615	2,883,615	-	-
Total	<u>\$ 10,898,494</u>	<u>\$10,898,494</u>	<u>\$ -</u>	<u>\$ -</u>

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

NOTE 5 PROPERTY AND EQUIPMENT, NET

Property and equipment, net as of August 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 124,494	\$ 124,494
Buildings	4,907,750	4,865,777
Building improvements	2,962,507	2,860,738
Furniture and equipment	1,499,326	1,340,222
Subtotal	9,494,077	9,191,231
Less: Accumulated depreciation	<u>(6,561,082)</u>	<u>(6,237,049)</u>
Total	<u><u>\$ 2,932,995</u></u>	<u><u>\$ 2,954,182</u></u>

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.

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, 2021 and 2020 was the prime rate plus 0.50%. The line is secured by land, buildings, and improvements. There were no outstanding borrowings against the line of credit as of August 31, 2021 and 2020, respectively.

The following table summarizes the principal and interest payments due for debt through maturity, as of August 31, 2021:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 81,008	\$ 41,795	\$ 122,803
2023	84,271	38,533	122,804
2024	928,526	35,237	963,763
Total	<u><u>\$ 1,093,805</u></u>	<u><u>\$ 115,565</u></u>	<u><u>\$ 1,209,370</u></u>

NOTE 7 LOANS PAYABLE

On April 11, 2020, the Theatre and its wholly owned subsidiary, Actors' Inn, were granted forgivable loans (the loans) from Customers Bank (Lender) in the amount of \$620,803 and \$88,267, respectively, under the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

NOTE 7 **LOANS PAYABLE** *(continued)*

The loans both bore interest at a rate of 1% per year. As of August 31, 2020, the balance outstanding on the loans were \$709,070. On March 11, and March 22, 2021, the loans to the Theatre and Actors' Inn were fully forgiven by the SBA, respectively. These amounts are included in the consolidated statements of activities as forgiveness of debt for the year ended August 31, 2021.

On February 18, 2021, Actors' Inn was granted a second PPP loan from the SBA in the amount of \$122,588. On March 25, 2021, the Theatre was also granted a second PPP loan from the SBA in the amount of \$619,416. Both of these loans were made with the same interest and forgiveness provisions as the first round of PPP loans. Actors' Inn applied for forgiveness of its second PPP loan on September 10, 2021 and was granted full forgiveness by the SBA on September 20, 2021. This was an expedited process directly with the SBA as the loan was under the \$150,000 threshold. On November 23, 2021, the Theatre applied for forgiveness of the second PPP loan, a decision was still pending as of the audit report date. As of August 31, 2021, the balance outstanding on the loans were \$742,004, plus accrued interest of \$3,214.

On June 29, 2020, the Theatre also received an Economic Injury Disaster Loan (EIDL) loan in the amount of \$150,000. The EIDL program was expanded under the CARES Act to provide economic relief to small businesses and non-profits experiencing income loss due to the COVID-19 pandemic. Interest accrues at 2.75% per year. On March 16, 2021, the SBA extended the deferment period for all EIDL loans from 12 months to 24 months. Installment payments, including principal and interest, of \$641 monthly will now begin on June 29, 2022. All remaining principal and accrued interest is due and payable 30 years from the date of the note (maturity date June 29, 2050). The loan is collateralized by the Theatre's property. As of August 31, 2021, the balance outstanding on the loan was \$150,000, plus accrued interest of \$4,837.

NOTE 8 **RELATED-PARTY NOTE RECEIVABLE (PAYABLE)**

On November 9, 2020, the Theatre executed a loan agreement with Actors' Inn in the amount of \$150,000. Interest under the loan accrues at a rate of 0.39% per annum, with principal and interest of \$1,414 due monthly beginning six months from the date of the note. The balance of principal and interest will be payable 9 years from the date of the note (maturity date November 9, 2029). As of August 31, 2021, the balance outstanding on the loan was \$150,000, plus accrued interest of \$474, which was reflected as a note receivable on the Theatre's records and a corresponding note payable on Actors' Inn. The note has been eliminated during consolidation. On November 16, 2021, the note was paid in full by Actors' Inn.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of August 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
<i>Subject to expenditure for specified purposes</i>		
Artistic and production	\$ 3,334,047	\$ 4,272,123
<i>Subject to passage of time</i>		
Contributions receivable that are not purpose-restricted, but are time restricted	2,925,757	4,215,389
Endowments subject to endowment spending policy and appropriation		
<i>Restricted by donors for the following</i>		
Artistic and production	<u>7,369,123</u>	<u>6,369,124</u>
Total	<u><u>\$ 13,628,927</u></u>	<u><u>\$ 14,856,636</u></u>

Net assets were released from restrictions for the years ended August 31, 2021 and 2020, as follows:

	<u>2021</u>	<u>2020</u>
<i>Subject to expenditure for specified purposes</i>		
Artistic and production	\$ 228,285	\$ 238,069
	228,285	238,609
Expiration of time restrictions	<u>1,358,408</u>	<u>970,550</u>
Total	<u><u>\$ 1,586,693</u></u>	<u><u>\$ 1,208,619</u></u>

NOTE 10 ENDOWMENTS

U.S. GAAP 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). As required by U.S. GAAP, 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 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 (the Fund) be governed by the provisions of Section 5548.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

NOTE 10 ENDOWMENTS *(continued)*

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.

Spending Policy

The Theatre periodically makes distributions from the endowment funds for purposes designated by donors. Per the Theatre's Board-approved spending policy, an annual distribution is taken each August. The Board approves the size of the annual draw with approval of the budget each fiscal year. The draw is between 2% and 7% of the three-year average of the total portfolio as of June 30 in each fiscal year.

Board-Designated Endowment Funds

The Board-designated fund is made up of contributions without donor restrictions. These funds may be spent at the discretion of the Board or on specific programs.

As of August 31, 2021 and 2020, endowment funds were composed of the following:

<u>August 31, 2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment fund	\$ 4,736,037	\$ -	\$ 4,736,037
<i>Donor-restricted endowment funds</i>			
Original donor-restricted endowment fund	-	7,369,124	7,369,124
Total	<u>\$ 4,736,037</u>	<u>\$ 7,369,124</u>	<u>\$ 12,105,161</u>

THE PEOPLE'S LIGHT AND THEATRE COMPANY
Notes to Consolidated Financial Statements
Years Ended August 31, 2021 and 2020

NOTE 10 ENDOWMENTS *(continued)*

Board-Designated Endowment Funds *(continued)*

<u>August 31, 2020</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment fund	\$ 3,026,386	\$ -	\$ 3,026,386
<i>Donor-restricted endowment funds</i>			
Original donor-restricted endowment fund	-	6,369,124	6,369,124
Total	<u>\$ 3,026,386</u>	<u>\$ 6,369,124</u>	<u>\$ 9,395,510</u>

Changes in endowment funds for the years ended August 31, 2021 and 2020 were as follows:

<u>August 31, 2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment, beginning of year	\$ 3,026,386	\$ 6,369,124	\$ 9,395,510
Investment return, net	1,891,647	-	1,891,647
Contributions	-	1,000,000	1,000,000
Appropriations of endowment assets under spending-rate policy	(181,996)	-	(181,996)
Endowment, end of year	<u>\$ 4,736,037</u>	<u>\$ 7,369,124</u>	<u>\$ 12,105,161</u>

<u>August 31, 2020</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment, beginning of year	\$ 2,282,233	\$ 5,744,124	\$ 8,026,357
Investment return, net	1,161,236	-	1,161,236
Contributions	-	625,000	625,000
Appropriations of endowment assets under spending rate policy	(417,083)	-	(417,083)
Endowment, end of year	<u>\$ 3,026,386</u>	<u>\$ 6,369,124</u>	<u>\$ 9,395,510</u>

Endowment funds with permanent donor restrictions are to be held in perpetuity. Investment income earned on donor restricted endowment funds are recorded as net assets with or without donor restrictions based on donor stipulations.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires to retain as a fund of perpetual duration. There were no such deficiencies as of August 31, 2021 and 2020.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

NOTE 11 LIQUIDITY AND AVAILABLE RESOURCES

Financial assets available for general expenditures within one year of the date of the consolidated statements of financial position consisting of the following:

	<u>2021</u>	<u>2020</u>
<i>Financial assets at year end</i>		
Cash and cash equivalents	\$ 3,589,751	\$ 2,537,848
Investments	4,736,037	3,026,386
Contributions receivable	2,468,876	2,570,288
Other receivables	4,836	33,594
	<u>10,799,500</u>	<u>8,168,116</u>
<i>Less: Amounts not available to be used within one year</i>		
Amounts restricted by donors as to purpose	3,404,634	3,199,146
Board-designated endowment fund	4,736,037	3,026,386
	<u>8,140,671</u>	<u>6,225,532</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 2,658,829</u>	<u>\$ 1,942,584</u>

As of August 31, 2021, the Board reserved \$4,736,037 in investments to maintain a stable source of income for the future charitable operations of the Theatre. These amounts, although not intended to be spent, could be made available in the event of financial distress or a liquidity need. Investments reflect marketable securities. Other receivables are subject to implied time restrictions but are expected to be collected within one year.

As part of its liquidity management, the Theatre actively manages operating cash balances to ensure that sufficient cash is available to fund general expenditures as they come due. The Theatre is typically able to generate enough operating cash from its ongoing operations to fund general expenditures but has procedures in place to utilize other financial assets if necessary. The Theatre invests a portion of its cash in excess of daily requirements in various short-term, highly liquid investments that can be converted to cash in a short period of time in the event of projected shortfall in operating cash or an unanticipated cash need.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

NOTE 12 LEAGUE OF RESIDENT THEATRES

The Theatre is a member of the League of Resident Theatres (LORT), which entered into an agreement (the 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 \$36,074 and \$71,995 for the years ended August 31, 2021 and 2020, 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, 2021 and 2020 were \$1,490 and \$30,567, respectively.

In addition, the Theatre extended its letter of credit in the amount of \$28,550 that can only be drawn by the Actors' Equity Association in the case of non-payment of payroll and related benefits. The letter of credit is secured by a certificate of deposit in the amount of \$28,550. The letter was not drawn on during the fiscal year ended August 31, 2021.

NOTE 13 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, 2021 and 2020 were \$88,403 and \$85,424, respectively.

NOTE 14 ADVERTISING EXPENSES

The Theatre employs several methods of advertising to market its programs to the public. Advertising expenses in fiscal 2021 and 2020 were \$222,879 and \$282,557, respectively.

NOTE 15 LEASE COMMITMENT

On March 25, 2004, the Theatre executed an operating lease for parking and storage space expiring in 2029. Per the agreement, the Theatre has the option to renew the lease for two additional 15-year periods. Effective in 2009, the minimum rent payable is adjusted every four years based on the consumer price index. The minimum rate could have been adjusted in fiscal year 2021 per the agreement, but the monthly rent amount was not changed.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

Years Ended August 31, 2021 and 2020

NOTE 15 LEASE COMMITMENT *(continued)*

On June 1, 2021, the Theatre entered into an operating lease for storage space expiring on May 31, 2026. During the year, annual base rent under the agreement is \$31,344, increasing by approximately 3% each year, to a maximum annual rent of \$34,635. In addition to base rent, the Theatre also pays for its share of monthly operating expenses of \$980, which is subject to increase during the remaining lease years.

Rental expense for the years ended August 31, 2021 and 2020, was \$24,611 and \$13,836, respectively.

Minimum future rentals to be paid on non-cancelable leases as of August 31, 2021, for each of the next five years and in the aggregate are:

<u>Year Ending August 31,</u>	<u>Amount</u>
2022	\$ 45,376
2023	46,169
2024	46,992
2025	47,825
2026	39,812
Thereafter	41,508
Total	<u><u>\$ 267,682</u></u>

NOTE 16 SUBSEQUENT EVENTS

In preparing the consolidated financial statements, the Theatre evaluated events and transactions for potential recognition or disclosure through January 27, 2022, the date that the consolidated financial statements were available to be issued.

