ROUNDABOUT THEATRE COMPANY, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2018

WITH INDEPENDENT AUDITOR'S REPORT

ADVISORY TAX AUDIT

Roundabout Theatre Company, Inc.
August 31, 2018

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ADVISORY TAX AUDIT

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Roundabout Theatre Company, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Roundabout Theatre Company, Inc. (a not-for-profit corporation) (the "Organization"), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roundabout Theatre Company, Inc. as of August 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1o to the financial statements, in 2018, the Organization adopted Accounting Standards Update *("ASU") 2016-14*, Not-for-Profit Entities (Topic 958). Our opinion is not modified with respect to this matter.

WithumSmith+Brown, PC

December 13, 2018

Roundabout Theatre Company, Inc.
Statement of Financial Position
August 31, 2018

	WITHOUT DONOR RESTRICTIONS				
	UNRESTRICTED	BOARD DESIGNATED	TOTAL	WITH DONOR RESTRICTIONS	TOTAL
Assets					
Current Assets					
Cash and cash equivalents	$ 18,652,000	$ 1,034,805	$ 19,686,805	$ 1,246,317	$ 20,933,122
Accounts receivable	1,531,599	-	1,531,599	-	1,531,599
Unconditional promises to give, net	1,363,303	1,777,078	3,140,381	5,875,288	9,015,669
Investments	311,048	40,811,169	41,122,217	-	41,122,217
Interfund	(1,077,127)	1,077,127	-	-	-
Prepaid expenses	917,634	-	917,634	-	917,634
Prepaid production costs	2,125,354	-	2,125,354	-	2,125,354
Total Current Assets	23,823,811	44,700,179	68,523,990	7,121,605	75,645,595
Unconditional promises to give, net	-	196,585	196,585	9,460,203	9,656,788
Investments	-	-	-	2,842,365	2,842,365
Restricted investments - (loan payable)	13,564,756	-	13,564,756	-	13,564,756
Restricted cash and cash equivalents - (letters of credit)	1,300,000	-	1,300,000	-	1,300,000
Property and equipment, at cost, net of accumulated depreciation and amortization	51,529,226	-	51,529,226	-	51,529,226
Security deposits	326,448	-	326,448	-	326,448
Other assets	20,000	-	20,000	-	20,000
Total Assets	$ 90,564,241	$ 44,896,764	$ 135,461,005	$ 19,424,173	$ 154,885,178
Liabilities and Net Assets					
Liabilities					
Current Liabilities					
Accounts payable and accrued expenses	$ 2,002,982	$ -	$ 2,002,982	$ -	$ 2,002,982
Salaries and other payroll related payables	948,262	-	948,262	-	948,262
Advance renter ticket sales	5,046,804	-	5,046,804	-	5,046,804
Advance admissions and subscriptions	9,438,782	-	9,438,782	-	9,438,782
Total Current Liabilities	17,436,830	-	17,436,830	-	17,436,830
Loan payable	13,564,756	-	13,564,756	-	13,564,756
Less: unamortized debt issuance costs	(92,885)	-	(92,885)	-	(92,885)
Loan payable, net	13,471,871	-	13,471,871	-	13,471,871
Retention payment payable	722,952	-	722,952	-	722,952
Deferred rent	2,407,658	-	2,407,658	-	2,407,658
Total Liabilities	34,039,311	-	34,039,311	-	34,039,311
Commitments and contingencies					
Net Assets					
Without donor restrictions					
Property and equipment	51,529,226	-	51,529,226	-	51,529,226
Board designated	-	44,896,764	44,896,764	-	44,896,764
Undesignated	4,995,704	-	4,995,704	-	4,995,704
With donor restrictions	-	-	-	19,424,173	19,424,173
Total Net Assets	56,524,930	44,896,764	101,421,694	19,424,173	120,845,867
Total Liabilities and Net Assets	$ 90,564,241	$ 44,896,764	$ 135,461,005	$ 19,424,173	$ 154,885,178

The notes to financial statements are an integral part of these statements.

Roundabout Theatre Company, Inc.
Statement of Activities
For the Year Ended August 31, 2018

	WITHOUT DONOR RESTRICTIONS				
	UNRESTRICTED	BOARD DESIGNATED	TOTAL	WITH DONOR RESTRICTIONS	TOTAL
Operating Activities					
Public Support and Other Revenue					
Public Support					
Grants and contributions					
Government, foundations, corporations and individuals	$ 8,111,877	$ 688,703	$ 8,800,580	$ 2,003,740	$ 10,804,320
Donated services and materials	276,234	-	276,234	-	276,234
Fundraising events	4,411,770	-	4,411,770	-	4,411,770
Less: Direct costs of fundraising events	(939,664)	-	(939,664)	-	(939,664)
Net assets released from restriction					
Government, foundations, corporations and individuals	2,689,230	6,181,333	8,870,563	(8,870,563)	-
Donated services and materials	26,135	-	26,135	(26,135)	-
Appropriation from endowment	125,867	-	125,867	-	125,867
Total Public Support	14,701,449	6,870,036	21,571,485	(6,892,958)	14,678,527
Other Revenue					
Admissions and subscriptions	17,731,767	-	17,731,767	-	17,731,767
Rental income, net of direct expenses $9,109,472	7,135,399	-	7,135,399	-	7,135,399
Concession and merchandise income	803,416	-	803,416	-	803,416
Ticket handling fees	742,295	-	742,295	-	742,295
Royalty income	445,712	-	445,712	-	445,712
Education income	376,773	-	376,773	-	376,773
Other income	316,450	-	316,450	-	316,450
Facility fees	252,524	-	252,524	-	252,524
Net investment income	41,870	-	41,870	-	41,870
Loss on disposal of equipment	(33,982)	-	(33,982)	-	(33,982)
Total Other Revenue	27,812,224	-	27,812,224	-	27,812,224
Total Public Support and Other Revenue	42,513,673	6,870,036	49,383,709	(6,892,958)	42,490,751
Expenses					
Program Services	39,448,533	-	39,448,533	-	39,448,533
Supporting Services					
Management and General	4,357,519	-	4,357,519	-	4,357,519
Fundraising	3,664,405	-	3,664,405	-	3,664,405
Total Supporting Services	8,021,924	-	8,021,924	-	8,021,924
Total Expenses	47,470,457	-	47,470,457	-	47,470,457
Increase (Decrease) in Net Assets Before Non-Operating Activities	(4,956,784) *	6,870,036	1,913,252	(6,892,958)	(4,979,706)
Non-Operating Activities					
Capital contributions	1,353,810	-	1,353,810	-	1,353,810
Net investment income	-	4,284,047	4,284,047	206,738	4,490,785
Appropriation from endowment	-	-	-	(125,867)	(125,867)
Total Non-Operating Activities	1,353,810	4,284,047	5,637,857	80,871	5,718,728
Increase (decrease) in net assets	(3,602,974)	11,154,083	7,551,109	(6,812,087)	739,022
Net assets, September 1, 2017	60,127,904	33,742,681	93,870,585	26,236,260	120,106,845
Net Assets, August 31, 2018	$ 56,524,930	$ 44,896,764	$ 101,421,694	$ 19,424,173	$ 120,845,867

* Includes $3,825,929 of depreciation and amortization expense
Decrease in unrestricted net assets before depreciation and amortization expense $ (1,130,855)

The notes to financial statements are an integral part of these statements.

Roundabout Theatre Company, Inc.
Statement of Functional Expenses
For the Year Ended August 31, 2018

		Supporting Services			
	Program Services	Management and General	Fundraising	Total	Total Expenses
Salaries, payroll taxes and benefits	$ 18,550,807	$ 1,917,571	$ 2,296,741	$ 4,214,312	$ 22,765,119
Physical production	4,309,277	-	-	-	4,309,277
Travel and housing	941,581	20,037	28,676	48,713	990,294
Press, publicity, and advertising	5,526,772	-	-	-	5,526,772
Royalties	673,172	-	-	-	673,172
Telephone, postage and supplies	612,140	117,864	238,045	355,909	968,049
Special series and event	219,077	62,247	137,664	199,911	418,988
Printing and publication	134,162	1,400	102,888	104,288	238,450
Outside services	587,141	500,649	39,534	540,183	1,127,324
Telemarketing	-	-	268,822	268,822	268,822
Insurance	352,025	200,702	33,172	233,874	585,899
Rent	2,244,222	669,352	143,956	813,308	3,057,530
Utilities and maintenance	1,298,456	164,127	35,299	199,426	1,497,882
Interest	-	386,661	-	386,661	386,661
Bad debt expense	-	-	19,017	19,017	19,017
Training and recruitment	65,451	23,851	13,996	37,847	103,298
Credit card fees and bank charges	-	6,352	82,299	88,651	88,651
Dues and memberships	26,934	30,738	2,522	33,260	60,194
Meetings and conferences	63,972	3,873	7,553	11,426	75,398
Office supplies and expenses	75,272	5,214	2,434	7,648	82,920
Other expenses	191,190	41,916	167,705	209,621	400,811
Total expenses before depreciation and amortization	35,871,651	4,152,554	3,620,323	7,772,877	43,644,528
Depreciation and amortization	3,576,882	204,965	44,082	249,047	3,825,929
Total Expenses	$ 39,448,533	$ 4,357,519	$ 3,664,405	$ 8,021,924	$ 47,470,457

The notes to financial statements are an integral part of these statements.

Roundabout Theatre Company, Inc.
Statement of Cash Flows
For the Year Ended August 31, 2018

Cash Flows From Operating and Non-Operating Activities	
Increase in net assets	$ 739,022
Adjustments to reconcile increase in net assets to net cash provided by operating and non-operating activities:	
Depreciation and amortization	3,825,929
Amortization of debt issuance costs	10,615
Change in allowance for uncollectible promises to give and discount to present value	(258,278)
Donated securities	(2,879,714)
Realized gain on sale of investments and donated securities	(665,008)
Unrealized gain on investments	(2,205,120)
Bad debt expense (including expense netted with funds with donor restrictions)	463,154
Loss on disposal of equipment	33,982
(Increase) Decrease in:	
Accounts receivable	(619,871)
Unconditional promises to give	6,378,998
Prepaid expenses	190,308
Prepaid production costs	(443,245)
Security deposits	42,164
Increase (Decrease) in:	
Accounts payable and accrued expenses	(543,047)
Salaries and other payroll related payables	(165,924)
Advance renter ticket sales	986,400
Advance admissions and subscriptions	1,654,394
Retention payment payable	168,937
Deferred rent	108,370
Net Cash Provided By Operating and Non-Operating Activities	6,822,066
Cash Flows From Investing Activities	
Purchases of property and equipment	(3,184,355)
Proceeds from sale of investments and donated securities	17,905,524
Purchases of investments	(21,726,960)
Net Cash Used By Investing Activities	(7,005,791)
Cash Flows From Financing Activities	
Debt issuance costs	(103,500)
Net Cash Used By Financing Activities	(103,500)
Net decrease in cash and cash equivalents	(287,225)
Cash and cash equivalents, September 1, 2017	22,520,347
Cash and Cash Equivalents, August 31, 2018	$ 22,233,122
Supplemental Disclosure	
Interest paid	$ 376,045

The notes to financial statements are an integral part of these statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a - Organization

Roundabout Theatre Company, Inc. (the "Organization") was formed on September 13, 1965 to foster and advance the development of, and to stimulate community interest in, the dramatic and theatrical arts. The Organization operates in New York City, presenting both "Broadway" and "Off-Broadway" theatrical productions throughout the year. The Organization's support comes primarily from admission and subscription revenue and from contributions.

b - Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The Organization's resources are classified and reported as separate classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Without donor restrictions - include expendable resources that are used to carry out the Organization's operations and are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the Organization or may be limited by contractual agreements without side parties. In addition, net assets without donor restrictions include board designated endowment funds and property and equipment used in operations.

With donor restrictions - Net assets subject to donor-imposed restrictions that will be met either by the actions of the Organization or through the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income may be made available for operations, subject to the Organization's spending policy.

c - Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

d - Fair Value Measurements

"Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. "Fair Value Measurements and Disclosures" defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price" in an orderly transaction between market participants).

In determining fair value, the Organization uses various valuation approaches, including market, income and/or cost approaches. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under "Fair Value Measurements and Disclosures" and the Organization's related types are described below.

Level 1: Quoted prices of identical instruments in active markets.

Level 2: Quoted prices of similar instruments in active markets; quoted prices of identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d - Fair Value Measurements (continued)

The financial instrument'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 valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

e - Investments

Investments in marketable securities are reported at their fair market value in the accompanying statement of financial position. All investments are stated at their fair value. Unrealized gains and losses are included in change in net assets in the accompanying statement of activities. Investments received by gift are initially recorded at fair value at the date of receipt. Fair values for stocks, bonds and U.S. government securities are based on quoted market prices. The amount of gain or loss associated with these investments is reflected in the accompanying statement of activities. Gains and losses on sales of investments are determined using the average cost method.

f - Grants and Contributions and Promises to Give

Grants and contributions are recognized when cash is received or when the donor makes a promise to give to the Organization that is, in substance, unconditional. Grants and contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions. The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

g - Property and Equipment

Property and equipment acquired are recorded at cost. It is the Organization's policy to capitalize expenditures for these items in excess of $5,000 (per project). Lesser amounts are expensed. Property and equipment are being depreciated over the useful life of the related asset using the straight-line method. Leasehold improvements are amortized over the shorter of useful life or periods, including options, if any, specified in the related lease agreements. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

h - Financial Statement Presentation

The Organization presents its financial statements according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions include net assets that are subject to donor-imposed stipulations that they be maintained permanently and net assets that are subject to donor-imposed stipulations that will be met by actions or by the passage of time. Net assets without donor restrictions are not subject to donor-imposed stipulations.

i - Revenue Recognition and Deferred Revenue

Admissions and subscriptions consist of individual ticket and ticket subscription series sales. Admissions are recognized based on tickets sold for performances conducted during the fiscal year. Subscriptions are recognized over the number of performances within each series package. Rental income is recognized when the lease terms are complete. The Organization rents two theatres and receives rent, service fees as well as other reimbursable expenses paid by the Organization, and are recorded in the period to which the fees relate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i - Revenue Recognition and Deferred Revenue (continued)

Concession and merchandise income are recognized when the sales occur. Royalty income is recognized during the operating weeks of the related show. Ticket handling fees, education income, other income and facility fees are recognized in the period the performance takes place or the period to which the fees relate. Fundraising event income and donated services are recognized in the period the performance takes place or the period to which the fees relate.

The Organization receives advance ticket sales for the productions renting the Organization's theatres and the sales are payable to the renter and are reflected as advance renter ticket sales. Advance admissions and subscriptions consists of advance subscription revenue, single ticket sales and deferred production revenue all of which are recognized in the period the performance takes place or the period to which the fees relate.

j - Inventory

The Organization maintains certain scenery and costume inventories of past productions in storage. The Organization is unable to determine future use of the scenery and costumes and therefore, they are expensed over the run of the public performances of the original show.

k - Advertising Costs

Advertising costs are charged to operations at the time the advertising occurs, except for direct response marketing and other expenses incurred related to the subsequent season's performances that are deferred and recognized in the season when the related revenue is recognized. Advertising expense for the year ended August 31, 2018 was $2,508,572.

l - Production Costs

Production costs are capitalized at cost and are amortized over the performances of the production. The Organization has established a policy that production costs are amortized over the run of the production. If the production runs less than two weeks within the current fiscal year, all the production costs are recognized in the next fiscal year in order to match the subscription season. The Organization had one production that had performances cross over August 31, 2018. Since the production ran for one day prior to August 31, 2018, the activity for the full run of the production will be recorded during fiscal year 2019.

m - Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

n - Tax Status and Uncertain Tax Positions

The Organization is a not-for-profit corporation, exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been designated as an organization which is not a private foundation. The Organization's Form 990, *Return of Organization Exempt from Income Tax* and Form 990-T, *Exempt Organization Business Income Tax Return,* for the years ended August 31, 2017, 2016 and 2015 are subject to examination by the IRS, generally for three years after they were filed.

The Organization believes that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. There are no income tax related penalties and interest included in these financial statements.

o - New Accounting Pronouncements Adopted in Current Year

During 2018, the Organization adopted *ASU 2016-14* - Not-for-profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o - New Accounting Pronouncements Adopted in Current Year (continued)

The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and presentation of expenses by both their nature and functional classification.

2. RESTRICTION ON NET ASSETS

a - Net Assets Without Donor Restrictions

Property and Equipment

The Property and Equipment Fund was established to provide for significant improvements to the Organization's facilities.

Board Designated Endowment

The Board Designated Endowment Fund was established by the Board of Trustees in 1995. Appropriations and transfers are made on a discretionary basis to support the Organization's operations, maintenance and capital projects for their facilities. The Board Designated Endowment includes a fund to be used for artistic initiatives at the discretion of the Board.

Capital Campaign

The Organization launched a $50 million campaign to build its Board Designated Endowment leading up to the Organization's 50th anniversary in the 2015/2016 season.

b - Net Assets With Donor Restrictions

The following net assets are restricted for the following purposes:

Grants and Contributions	
Future Periods and Programs	
Capital Campaign	$ 12,903,167
Future productions and programs	2,903,502
Time restrictions	1,176,500
	16,983,169
Less: Allowance for uncollectible promises to give	(223,890)
Less: Discount to present value	(321,640)
	16,437,639
Accumulated endowment earnings	764,349
	17,201,988
Donor-Designated Endowments	
Donor Directed Use of Investment Income	
Education Endowment Fund	1,100,000
General Endowment Fund	642,675
Todd Haimes Fund for Artistic Excellence	479,510
	2,222,185
Total Net Assets with Donor Restrictions	$ 19,424,173

2. RESTRICTION ON NET ASSETS (CONTINUED)

b - Net Assets With Donor Restrictions (continued)

Education Endowment Fund

This fund supports the Organization's important work with students and teachers representing the New York City public schools as well as its career development program.

General Endowment Fund

This fund supports the general operating expenses incurred by the Organization to stage its subscription season.

Todd Haimes Fund for Artistic Excellence

Established to honor the leadership and vision of the Organization's Artistic Director Todd Haimes on his 25th anniversary with the Organization, this fund supports productions of plays or musicals whose complexity and scope would be prohibitive within the normal operating budget. The income on these funds are spent towards such productions at the discretion of the Artistic Director.

The Organization's endowment funds, composition by type of fund and net asset classification, are summarized as follows at August 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-Designated Funds	$ 44,896,764	$ -	$ 44,896,764
Donor-Designated Endowments	-	2,222,185	2,222,185
	$ 44,896,764	$ 2,222,185	$ 47,118,949

Board-designated endowment funds include a fund originating from the Doris Duke Charitable Foundation Endowment Fund for Artistic Initiatives. The balance of this fund at August 31, 2018 was $2,037,788.

The Organization's endowment consists of funds established for the purposes described above. Its endowment includes three donor-restricted endowment funds. As required by Generally Accepted Accounting Principles in the United States of America ("GAAP"), net assets associated with an endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations and decrements to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

a. The duration and preservation of the fund;
b. The purposes of the Organization and the donor-restricted endowment fund;
c. General economic conditions;
d. The possible effect of inflation and deflation;
e. The expected total return from income and the appreciation of investments;
f. Other resources of the Organization; and
g. The investment policy of the Organization.

2. RESTRICTION ON NET ASSETS (CONTINUED)

b - Net Assets With Donor Restrictions (continued)

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for endowment assets with the primary goal of maintaining the original value of the endowment principal, while providing funding to programs supported by its endowment. Under this policy, the endowment assets are invested in a manner that is intended to produce income and preserve principal while assuming a very low level of investment risk.

Endowment Spending Policy

The percentage allowed to be utilized towards the Organization's operations within the Organization's endowment spending policy is up to an amount equal to 5% of the 3-year average asset value of each donor-designated endowments, as calculated on the last day of the preceding fiscal year. Any net excess in investment earnings over the spending policy on donor-designated endowments is reflected within net assets with donor restrictions to be utilized in future periods and/or programs, with any losses reducing net assets with donor restrictions. Net excess investment income from endowment funds is reflected within net assets with donor restrictions as of August 31, 2018.

Changes in endowment assets is as follows for the year ended August 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, August 31, 2017	$ 33,742,681	$ 2,220,620	$ 35,963,301
Contributions	6,870,036	1,565	6,871,601
Net investment income	4,284,047	206,738	4,490,785
Accumulated endowment earnings	-	(80,871)	(80,871)
Appropriation for spending	-	(125,867)	(125,867)
Endowment Net Assets, August 31, 2018	$ 44,896,764	$ 2,222,185	$ 47,118,949

3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of August 31, 2018, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

Financial assets	
Cash and cash equivalents	$ 18,652,000
Accounts receivable	1,531,599
Unconditional promises to give	1,363,303
Investments	311,048
	21,857,950
Liquidity resources	
Unused letters of credit	222,052
Total financial assets and liquidity resources available within one year	$ 22,080,002

3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES (CONTINUED)

The Organization's cash flows have seasonal variations due to subscriptions series renewals and single tickets sales. To manage liquidity, the Organization sells subscriptions at the beginning of the season to have cash on hand to pay for operating expenditures. The Organization rents two theatres and receives rent, service fees as well as other reimbursable expenses paid by the Organization. The Organization receives the advance ticket sales for the productions renting the theatres. In addition, the Organization has pledge campaigns to fund operations and other projects. The Organization's endowment funds consist of donor-restricted endowments. As described in Note 2b, the Organization has a spending rate of 5%.

4. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash and cash equivalents balances at two financial institutions located in New York, NY. The balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per institution. As of August 31, 2018, the uninsured balances totaled $22,639,386.

The Organization maintains investment accounts at two financial institutions located in New York, NY. The balances are insured by the Securities Investor Protection Corporation ("SIPC") up to $500,000. The SIPC does not protect investors from market risks. At August 31, 2018, the Organization's uninsured investment balances totaled $56,529,338.

5. CASH, CASH EQUIVALENTS AND INVESTMENTS

a - Fair Value of Financial Instruments

The fair value and carrying amount of the Organization's cash and short-term investments as of August 31, 2018 was $62,055,339. Cash and short-term investments carrying amount approximates fair value because of the short maturities of those investments.

b - Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis consist of mutual funds and exchange-traded funds (all Level 1). Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Investments, which are all classified as Level 1 in the fair value hierarchy, consist of the following as of August 31, 2018:

	Cost	Fair Value
Mutual Funds and Exchange Traded Funds		
Fixed Income	$ 14,004,086	$ 15,641,887
Equities		
Domestic	21,766,650	24,312,297
International	9,703,205	10,838,012
Emerging markets	4,091,081	4,569,540
Domestic Real Estate	839,196	937,342
International Commodities and Infrastructure	1,101,445	1,230,260
	$ 51,505,663	$ 57,529,338

5. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

c - Investment Income

Investment income consists of the following for the year ended August 31:

Unrealized gain on investments	$	2,205,120
Interest and dividend income		1,812,275
Realized gain on sale of investments		665,008
Investment fees		(149,748)
	$	4,532,655

6. PROMISES TO GIVE

a - Unconditional Promises to Give

When estimating fair value of unconditional promises to give, management considers the relationships with donor, the donor's past history of making timely payments, and the donor's overall creditworthiness and incorporated into a fair value measurement computed using present value techniques. The interest element resulting from amortization of the discount for the time value of money, computed using the effective interest rate method, is reported as contribution revenue. The Organization has estimated an allowance for uncollectible promises to give of $268,046 based on these determinations. Unconditional promises to give to be received after one year are discounted at the Daily Treasury Yield Curve Rates.

The table below presents information about unconditional promises to give at August 31, 2018:

	Less Than One Year	Over One Year	Total
Without Donor Restrictions	$ 3,184,537	$ 200,000	$ 3,384,537
With Donor Restrictions	5,875,287	10,005,734	15,881,021
	9,059,824	10,205,734	19,265,558
Less: allowance for uncollectible promises to give	(44,155)	(223,891)	(268,046)
Less: discount for present value	-	(325,055)	(325,055)
	$ 9,015,669	$ 9,656,788	$ 18,672,457

b - Conditional Promises to Give

The Organization has been informed of various intentions and bequests which have not been reflected in the accompanying financial statements since they do not represent unconditional promises to give.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at August 31, 2018:

	Life/Years	
Theatre acquisition and renovation - Studio 54	5-40	$ 37,640,413
Leasehold improvements - American Airlines Theatre	Life of lease	26,424,228
Leasehold improvements - Steinberg Center	Life of lease	10,783,633
Leasehold improvements - Stephen Sondheim Theatre	Life of lease	8,714,760
Leasehold improvements - 39th Street	Life of lease	3,308,483
Leasehold improvements - rehearsal studio and other	Life of lease	1,014,195
Equipment, furniture and other	5-20	9,003,540
		96,889,252
Less: accumulated depreciation and amortization		(45,360,026)
		$ 51,529,226

Depreciation and amortization expense for the year ended August 31, 2018 was $3,825,929.

Included in theatre and leasehold improvements are capital expenditures from the City of New York Department of Cultural Affairs (the “City”). The City has a security interest in all assets acquired by City funding. The City's investment of capital funds obligates the Organization to operate its facilities during the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City for cultural, educational or artistic uses and/or related purposes approved by the City.

8. LETTERS OF CREDIT

A financial institution has extended the Organization $1,300,000 letters of credit ($1,077,948 issued as of August 31, 2018). At August 31, 2018, three letters of credit have been issued against this availability, two in the amounts of $600,000 and $137,500 are in lieu of a security deposit under a theatre lease agreement, and the other is a bond with Actors’ Equity Association in the amount of $340,448.

9. LOAN PAYABLE

In May 2016, the Organization entered a 5-year term loan agreement with a financial institution which provides for maximum borrowings of $14,005,000 ($13,564,756 outstanding as of August 31, 2018) with annual interest of one month LIBOR plus 1.05%. Interest on the term loan is due monthly with the principal amount due at maturity, July 31, 2021. The term loan is secured by certain investments and cash and cash equivalents held at the same financial institution. The term loan contains certain administrative and restrictive financial covenants which provide for, among other things, minimum net assets. As of August 31, 2018, the Organization was in compliance with these covenants. Interest expense for the year ended August 31, 2018 was $376,046.

On April 24, 2018, the Organization entered into an interest rate cap agreement on the term loan to reduce the impact of changes in interest rates on its one month LIBOR on the $13.5m long-term debt. The annual interest rate is one month LIBOR capped at 3% plus 1.05% (3.175% as of August 31, 2018). The interest rate cap agreement matures at the time the related note matures on July 31, 2021. Per the interest rate cap agreement, the Organization paid $103,500 for the capped rate which is being amortized on a straight-line basis over the term of the loan. Amortization expense for the year ended August 31, 2018 was $10,615.

10. COMMITMENTS AND CONTINGENCIES

a) Government supported programs are subject to audit by the granting agency.

b) The Organization occupies administrative space on West 39th Street under an operating lease with a term that expires December 31, 2029. The lease requires payments subject to annual increases, as well as increases for subsequent increases in taxes.

The Organization occupies the former Selwyn Theatre under a thirty-year operating lease with The New 42nd Street, Inc. ("New 42"). The Selwyn Theatre was renamed the American Airlines Theatre. The lease requires annual payments subject to increases by the greater of $50,000 or the increase in the cost-of-living (NYC INDEX) every sixth year, with a cap on the cost-of-living of 20% of the prior base rent. The rent was reset to $510,000 at the third review date of August 1, 2016. In addition, New 42 is entitled to 20% of any income derived from signage on the face of the building, and additional rent for certain commercial uses of the facility. The lease has eleven renewal options, each for a term of five years. None of these amounts are reflected in future minimum lease payments detailed below.

The Organization also occupies a theatre under an operating lease with a term that expires December 31, 2022. The lease provides for a fixed annual rental of $750,000. This West 46th Street facility was renamed the "Harold and Miriam Steinberg Center for Theatre" in recognition of their foundation's extraordinary commitment to the initial renovations.

The Organization occupies the Henry Miller's Theatre under a twenty-year operating lease with the company of a Board member. This facility, located at One Bryant Park, was renamed as the Stephen Sondheim Theatre. Pursuant to the terms of the lease, the Organization made a payment of $6 million toward the construction of the theatre. The lease requires annual payments for rent, initially $250,000 per annum and increasing to $332,750 over the term of the lease. Additional annual rent is required for real estate taxes, air conditioning and other building expense, subject to annual increases. The Organization may also be obligated to pay additional rent based on net rental income as defined in the lease and its subsequent amendments. The lease includes certain restrictions as to the use of the theatre.

The Organization also leases rehearsal and warehouse facilities under operating leases. Leases for rehearsal spaces expire in 2025; the warehouse space lease expires in 2019. The Organization also leases various office and production equipment under short-term operating leases.

Rent expense, including the adjustment for deferred rent credit, and real estate taxes under the leases for the year ended August 31, 2018 was $3,634,712.

Generally accepted accounting principles in the United States of America require the Organization to amortize the aggregate of the total minimum lease payments on the straight-line basis over the term of the lease. The difference between the straight-line expense and amounts paid in accordance with the terms of its leases is recorded as deferred rent in the statement of financial position. Deferred rent for the above leases as of August 31, 2018 was $2,407,658.

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

b) Leases (continued)
The approximate minimum annual rental payments for all leases as of August 31, 2018 are as follows:

For the year ending August 31, 2019	$	3,296,835
" " " " August 31, 2020		3,351,962
" " " " August 31, 2021		3,480,124
" " " " August 31, 2022		3,529,095
" " " " August 31, 2023		2,918,507
For the seven years ending August 31, 2030		16,656,898
Total	$	33,233,421

c) In 2014, the Organization entered into a retention agreement with an executive under which, upon the completion of continuous service until February 14, 2020, the executive will receive $1 million, payable in equal installments on June 13, 2020, 2021 and 2022. As of August 31, 2018, a cumulative total of $722,952 has been accrued. If the executive is replaced or duties curtailed other than for "cause" before completing continuous service until February 14, 2020, the executive would be due an amount equal to one-month base salary for each year of service since 1990, payable over thirty-six months.

d) The Organization has entered into various contracts with playwrights in order to develop, produce, promote, and present plays on the stage in the presence of an audience. The Organization is obligated to pay royalties to authors and/or composers for productions that they have produced. In some cases, when a play produced by the Organization generates royalties to the author or composer, then the Organization will generally be entitled to a certain percentage of the net proceeds received by the author and/or composer.

e) The Organization has been named in several workers compensation claims and three litigations for personal injuries sustained at premises leased or owned by the Organization. Management believes that its insurance coverage will be sufficient to cover any claim which may be realized.

f) As of August 31, 2018, the Organization was awarded funds from the Department of Cultural Affairs ("DCA") for American Airlines HVAC replacements and Studio 54 fire and life safety system approximately of $3.5m through a reimbursement grant. The total budget for these projects is estimated at $7.6m and the Organization expects that these projects will commence in fiscal year 2019.

g) The Organization has entered into an agreement with a concessionaire for the right to occupy the Organization's concession area in order to provide and sell food and refreshment services at all theatres. The agreement expires August 31, 2025. The Organization is entitled to a percentage of concession receipts for all sales and an annual in kind contribution from the concessionaire. In addition to retaining a percentage of the sales, the concessionaire is entitled to a weekly management fee.

h) The Organization has entered into an agreement with a merchandise company for the right to sell merchandise items at all theatres. The agreement expires August 31, 2023. The Organization is entitled to a percentage of receipts for all sales.

11. PENSION PLANS, DEFERRED COMPENSATION PLANS AND OTHER EMPLOYEE BENEFITS

a) The Organization has a 401(k) salary deferral plan covering substantially all its non-union employees who meet the eligibility requirements. Under the plan, employees may make voluntary contributions and the Organization may make a contribution to the plan on a discretionary basis, generally 5% of an employee's compensation (with certain increases depending on staff position). During the year ended August 31, 2018, the Organization contributed a total of $489,292.

The Organization has a 403(b) salary deferral plan. The plan is employee contributory only.

b) The Organization contributes to eight multiemployer pension plans under collective bargaining agreements covering union-represented employees, entirely in the entertainment industry. The vast majority of employers participating in these multiemployer plans are primarily engaged in the entertainment industry. These plans generally provide retirement benefits to vested participants based on their service to contributing employers, of which the Organization is one. In general, these plans are managed by a Board of Trustees with the unions appointing certain trustees and contributing employers of the plan appointing certain members. The Organization does not participate in any plan where it considers its contributions to be individually significant to the overall plan.

Based on information available to the Organization, the vast majority of the multiemployer plans to which it contributes are adequately funded under the applicable provisions of the Pension Protection Act (“PPA”) enacted in 2006. Two funds are in either “critical” or “endangered” status as those terms are defined in the PPA. The PPA requires all underfunded pension plans to improve their funding ratios within prescribed intervals based on their level of underfunding. Until the plan trustees develop the funding improvement plans or rehabilitation plans as required by the PPA, we are unable to determine the amount of assessments the Organization may be subject to, if any.

Under applicable law upon its ceasing to make contributions to, or other “withdrawal” from an underfunded multiemployer pension plan, the affected funds could seek contributions from the Organization for the Organization's proportionate share of the plan's unfunded vested liabilities. The Organization believes that under such circumstances, if a fund were to seek to assess such contribution obligation upon the Organization's alleged “withdrawal,” the Organization would have significant defenses against such assessment under applicable law. The Organization cannot determine at this time the impact that any alleged withdrawal from the affected plans may have on its financial position, results of operations or cash flows.

Approximately 59% of the Organization’s employees and contractors are participants in multiemployer plans for the year ended August 31, 2018. Pension and welfare expense for multiemployer plans was $2,908,594 for the year ended August 31, 2018.

12. DONATED SERVICES AND MATERIALS

The Organization received donated services and materials during the year ended August 31, 2018 in the amount of $276,234 in support of its programs. The fair market value has been recorded in the accompanying financial statements.

13. FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the various programs and the supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

14. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 13, 2018, the date which the financial statements were available to be issued. Management has determined that there are no subsequent events that require disclosure in the financial statements.