

FORD'S THEATRE SOCIETY

**Consolidated Financial Statements Together with
Report of Independent Public Accountants**

For the Years Ended August 31, 2018 and 2017



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

AUGUST 31, 2018 AND 2017

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
Ford's Theatre Society

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ford's Theatre Society (the Society), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, 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 consolidated financial position of the Society as of August 31, 2018 and 2017, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, D.C.
November 19, 2018

S B & Company, LLC

FORD'S THEATRE SOCIETY

Consolidated Statements of Financial Position For the Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,282,881	\$ 2,996,331
Investments	14,511,097	14,129,089
Restricted investments	96,375	59,043
Accounts receivable	37,293	75,162
Capital campaign pledges receivable, net	87,750	129,270
Other pledges receivable	254,097	1,478,314
Direct pre-production expenses	329,729	377,509
Prepaid expenses and other assets	323,406	309,236
Property and equipment, net	30,533,156	31,198,535
Total Assets	\$ 48,455,784	\$ 50,752,489
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 949,778	\$ 911,637
Advance ticket sales	604,347	829,576
Total Liabilities	1,554,125	1,741,213
Net Assets		
Unrestricted	34,663,555	35,676,839
Unrestricted - board designated	467,632	532,000
Temporarily restricted	6,420,308	7,452,273
Permanently restricted	5,350,164	5,350,164
Total Net Assets	46,901,659	49,011,276
Total Liabilities and Net Assets	\$ 48,455,784	\$ 50,752,489

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

FORD'S THEATRE SOCIETY

Consolidated Statement of Activities and Changes in Net Assets For the Year Ended August 31, 2018 with Comparative Totals for 2017

	2018					2017 Totals	
	Unrestricted	Board Designated Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted		Total
OPERATING REVENUE							
Production revenue	\$ 4,901,738	\$ -	\$ 4,901,738	\$ -	\$ -	\$ 4,901,738	\$ 6,096,364
Day visits and audio tours	1,038,769	-	1,038,769	-	-	1,038,769	1,140,367
Endowment return appropriated for expenditure	672,379	-	672,379	(672,379)	-	-	-
Other revenue	591,398	-	591,398	-	-	591,398	1,083,482
Total Operating Revenue	7,204,284	-	7,204,284	(672,379)	-	6,531,905	8,320,213
OPERATING SUPPORT							
Gala revenue	1,815,500	-	1,815,500	-	-	1,815,500	1,607,500
Public support contributions	2,940,832	-	2,940,832	460,016	-	3,400,848	5,075,361
Government support	828,659	-	828,659	148,004	-	976,663	837,644
In-kind contributions	648,498	-	648,498	-	-	648,498	442,919
Board Designated Transfer-Operating	64,368	(64,368)	-	-	-	-	-
Net assets released from restrictions:							
Satisfaction of program restrictions	2,007,231	-	2,007,231	(2,007,231)	-	-	-
Total Operating Support	8,305,088	(64,368)	8,240,720	(1,399,211)	-	6,841,509	7,963,424
Total Operating Revenue and Support	15,509,372	(64,368)	15,445,004	(2,071,590)	-	13,373,414	16,283,637
OPERATING EXPENSES							
Program services:							
Artistic, production and technical	7,211,605	-	7,211,605	-	-	7,211,605	7,612,252
Outreach and education	788,824	-	788,824	-	-	788,824	731,028
Total Program Services	8,000,429	-	8,000,429	-	-	8,000,429	8,343,280
Supporting Services:							
Marketing and public relations	1,627,536	-	1,627,536	-	-	1,627,536	1,646,391
General and administrative	3,514,977	-	3,514,977	-	-	3,514,977	3,450,127
Fundraising	1,433,009	-	1,433,009	-	-	1,433,009	1,152,321
Gala production	465,789	-	465,789	-	-	465,789	328,065
Total Supporting Services	7,041,311	-	7,041,311	-	-	7,041,311	6,576,904
Total Operating Expenses	15,041,740	-	15,041,740	-	-	15,041,740	14,920,184
Changes in net assets from operations	467,632	(64,368)	403,264	(2,071,590)	-	(1,668,326)	1,363,453
NON-OPERATING ACTIVITIES							
Capital campaign expense	-	-	-	-	-	-	(34,800)
Depreciation and amortization	(1,525,252)	-	(1,525,252)	-	-	(1,525,252)	(1,488,050)
Investment income	44,336	-	44,336	1,039,625	-	1,083,961	1,303,600
Excess (Deficiency) of Non-Operating Activities	(1,480,916)	-	(1,480,916)	1,039,625	-	(441,291)	(219,250)
Changes in net assets	(1,013,284)	(64,368)	(1,077,652)	(1,031,965)	-	(2,109,617)	1,144,203
Net assets, beginning of year	35,676,839	532,000	36,208,839	7,452,273	5,350,164	49,011,276	47,867,073
Net Assets, End of Year	\$ 34,663,555	\$ 467,632	\$ 35,131,187	\$ 6,420,308	\$ 5,350,164	\$ 46,901,659	\$ 49,011,276

The accompanying notes are an integral part of this consolidated financial statement.

FORD'S THEATRE SOCIETY

Consolidated Statement of Activities and Changes in Net Assets For the Year Ended August 31, 2017

	2017					Total
	Unrestricted	Board Designated Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUE						
Production revenue	\$ 6,096,364	\$ -	\$ 6,096,364	\$ -	\$ -	\$ 6,096,364
Day visits and audio tours	1,140,367	-	1,140,367	-	-	1,140,367
Endowment return appropriated for expenditure	634,210	-	634,210	(634,210)	-	-
Other revenue	1,083,482	-	1,083,482	-	-	1,083,482
Total Operating Revenue	8,954,423	-	8,954,423	(634,210)	-	8,320,213
OPERATING SUPPORT						
Gala revenue	1,607,500	-	1,607,500	-	-	1,607,500
Public support contributions	3,735,286	-	3,735,286	1,340,075	-	5,075,361
Government support	517,200	-	517,200	320,444	-	837,644
In-kind contributions	442,919	-	442,919	-	-	442,919
Board Designated Transfer-Operating	(110,893)	110,893	-	-	-	-
Net assets released from restrictions						
Satisfaction of program restrictions	306,059	-	306,059	(306,059)	-	-
Total Operating Support	6,498,071	110,893	6,608,964	1,354,460	-	7,963,424
Total Operating Revenue and Support	15,452,494	110,893	15,563,387	720,250	-	16,283,637
OPERATING EXPENSES						
Program services						
Artistic, production and technical	7,612,252	-	7,612,252	-	-	7,612,252
Outreach and education	731,028	-	731,028	-	-	731,028
Total Program Services	8,343,280	-	8,343,280	-	-	8,343,280
Supporting Services						
Marketing and public relations	1,646,391	-	1,646,391	-	-	1,646,391
General and administrative	3,450,127	-	3,450,127	-	-	3,450,127
Fundraising	1,152,321	-	1,152,321	-	-	1,152,321
Gala production	328,065	-	328,065	-	-	328,065
Total Supporting Services	6,576,904	-	6,576,904	-	-	6,576,904
Total Operating Expenses	14,920,184	-	14,920,184	-	-	14,920,184
Changes in net assets from operations	532,310	110,893	643,203	720,250	-	1,363,453
NON-OPERATING ACTIVITIES						
Net assets released from restrictions						
Satisfaction of program restrictions capital	237,035	-	237,035	(237,035)	-	-
Capital campaign expense	(34,800)	-	(34,800)	-	-	(34,800)
Depreciation and amortization	(1,488,050)	-	(1,488,050)	-	-	(1,488,050)
Investment income (loss)	134,517	-	134,517	1,169,083	-	1,303,600
Excess (Deficiency) of Non-Operating Activities	(1,151,298)	-	(1,151,298)	932,048	-	(219,250)
Changes in net assets	(618,988)	110,893	(508,095)	1,652,298	-	1,144,203
Net assets, beginning of year	36,295,827	421,107	36,716,934	5,799,975	5,350,164	47,867,073
Net Assets, End of Year	\$ 35,676,839	\$ 532,000	\$ 36,208,839	\$ 7,452,273	\$ 5,350,164	\$ 49,011,276

The accompanying notes are an integral part of this consolidated financial statement.

FORD'S THEATRE SOCIETY

Consolidated Statements of Cash Flows For the Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (2,109,617)	\$ 1,144,203
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	1,525,252	1,488,050
Net realized and unrealized gain on investments	(609,618)	(842,079)
Effects from changes in non-cash operating assets and liabilities:		
Accounts receivable	37,869	257,116
Other pledges receivable	1,224,217	(600,913)
Direct pre-production expenses	47,780	463,204
Prepaid expenses and other assets	(14,170)	42,350
Accounts payable and accrued expenses	38,141	209,610
Advance ticket sales	(225,229)	(675,733)
Deferred rent	-	(9,176)
Net Cash from Operating Activities	<u>(85,375)</u>	<u>1,476,632</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	190,280	158,395
Purchases of property and equipment	(859,875)	(352,619)
Net Cash from Investing Activities	<u>(669,595)</u>	<u>(194,224)</u>
Cash Flows from Financing Activities		
Proceeds from contributions restricted for capital campaign	41,520	41,803
Net change in cash and cash equivalents	(713,450)	1,324,211
Cash and cash equivalents, beginning of year	2,996,331	1,672,120
Cash and Cash Equivalents, End of Year	<u>\$ 2,282,881</u>	<u>\$ 2,996,331</u>

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

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

1. BACKGROUND OF THE ORGANIZATION

Ford's Theatre Society was incorporated in 1967 under the not-for-profit corporation laws of the District of Columbia. Ford's Theatre is one of the most visited sites in the nation's capital and is operated through a partnership between Ford's Theatre Society and the National Park Service. Ford's Theatre reopened its doors in 1968, more than a hundred years after the assassination of President Abraham Lincoln and is the premier destination in the nation's capital to explore and celebrate Abraham Lincoln's ideals and leadership principles: courage, integrity, tolerance, equality and creative expression.

The mission of Ford's Theatre Society is to celebrate the legacy of Abraham Lincoln and explore the American experience through theatre and education. In 2009, Ford's reopened a restored and renovated theatre along with a re-imagined museum, illuminating the world of Civil War Washington and the years of Lincoln's presidency. In 2012, Ford's opened the Center for Education and Leadership, expanding the pathways for connecting with Lincoln's legacy.

As a working theatre, Ford's produces renowned plays, vibrant musicals and newly commissioned works that captivate and entertain while examining political and social issues related to Lincoln's legacy. With works from the Tony-nominated *Come From Away* and the nationally acclaimed *Big River* to the world premieres of *Meet John Doe*, *The Heavens Are Hung In Black*, *Liberty Smith*, *Necessary Sacrifices*, *The Widow Lincoln* and *The Guard*, Ford's Theatre is making its mark on the American theatre landscape.

With the opening of the Center for Education and Leadership, Ford's Theatre has become a major center for learning, where people of all ages can examine Lincoln's multi-faceted legacy through exhibitions, workshops, and educational programs. Through an array of interactive programming, students, teachers, families and life-long learners can deepen their connection to and understanding of our 16th president.

The Ford's Theatre experience inspires audiences from around the world to become compassionate leaders in their own communities, empowering them to live out Lincoln's principles in their own lives. For its accomplishments, the Society was honored in 2008 with the National Medal of Arts, the highest award given by the U.S. government to artists, arts institutions and arts patrons.

The Mary Jane Wick Endowment Fund, also known as The Frankie Hewitt Endowment, was incorporated in 1995 under the not-for-profit corporation laws of the District of Columbia. The Mary Jane Wick Endowment Fund was established to accept and receive endowment funds for the benefit of the Ford's Theatre Society.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the Ford's Theatre Society and the Mary Jane Wick Endowment Fund. The Ford's Theatre Society and the Mary Jane Wick Endowment Fund, (collectively referred to as the Society) have been consolidated due to the presence of common control and economic interest as required under accounting principles generally accepted in the United States of America. All significant inter-company balances and transactions have been eliminated in the consolidation.

Cash and Cash Equivalents

Cash and cash equivalents, not held for investment purposes, include amounts invested in short-term investments with original maturities of 90 days or less. Cash equivalents as of August 31, 2018 and 2017, consisted of money market funds.

Fair Value Measurements

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 accounting principles are described below:

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

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial instruments consist of cash equivalents and investments. The carrying value of the Society's financial instruments in the accompanying consolidated statements of financial position approximated their respective estimated fair values as of August 31, 2018 and 2017, because of the short-term nature of these investments. Fair values are estimated based on current market rates, prices or liquidation value.

Pledges Receivable

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges receivable are deemed to be fully collectible. The discount rate was 5.0% and 4.5% as of August 31, 2018 and 2017, respectively.

Direct Pre-Production Expenses

Deferred costs (direct pre-production expenses) related to specific seasons or productions are capitalized and expensed during the related season or seasons when a specific production is performed.

Property and Equipment

Property and equipment purchased are recorded at cost. Depreciation of property and equipment is recognized using the straight-line method over the estimated useful life of the asset.

Leasehold improvements include renovations of the theatre and museum in the building owned by the U.S. Department of the Interior, National Park Service, which have been renovated by the Society. Additional leasehold improvements include the Atlantic lobby space adjacent to the theatre, which is being leased by the Society for the theatre lobby and allows access (including handicap access) to the theatre. The building and improvements for 514 10th Street NW include the Center for Education and Leadership and administrative offices.

Leasehold improvements and building improvements are amortized over the useful life of the improvements. Repairs and maintenance costs are expensed as incurred.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

Unrestricted net assets represent resources available to support the Society's operations. During 2017, the board designated \$532,000 of unrestricted net assets to support future year operations. During 2018, the board designated \$467,632 of unrestricted net assets to support future year operations. The year to year balance of these board designated unrestricted net assets is provided below:

	<u>Amount</u>
Board designated unrestricted net assets (August 31, 2015)	\$ 1,000,000
FY2016 Net Change	(578,893)
FY2017 Net Change	110,893
FY2018 Net Change	<u>(64,368)</u>
Board designated unrestricted net assets (August 31, 2018)	<u>\$ 467,632</u>

Temporarily restricted net assets represent contributions that are limited in use by the Society, in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by actions of the Society that are in accordance with the terms of the contribution. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as unrestricted net assets. Unexpended endowment earnings are also included in temporarily restricted net assets.

Permanently restricted net assets represent contributions and other assets to be held as investments in perpetuity, as directed by the original donor. The income from these investments is temporarily restricted to support operating activities of the Society.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily or permanently restricted support, depending on the existence and/or nature of any donor imposed restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Ticket sales (production revenue) are recognized as revenue when the related performances are given. Ticket sales in advance of the performance are recorded as advance ticket sales.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Goods and Services

Donated goods are recorded at fair value if they create or enhance a non-financial asset. Donated services are recorded at estimated fair value based on the type of professional services provided. The estimated fair values of these donations are reflected in the accompanying consolidated statements of activities and changes in net assets as in-kind contributions and expenses under support and artistic, production and technical, general and administrative, and fundraising expenses.

Advertising Costs

Advertising costs are expensed when incurred, except the costs of advertising for future productions, which are recorded as prepaid expenses and expensed at the beginning of the production that the advertising is related. Advertising expense for the years ended August 31, 2018 and 2017, was \$602,034 and \$713,036, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs.

General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Society.

Income Taxes

The Society is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Society has also been classified as an entity that is not a private foundation within the meaning of Section 509(a)(1). Income which is not related to exempt purposes, less applicable deductions, is subject to Federal and state corporate income taxes. The Society had no net unrelated business income for the years ended August 31, 2018 and 2017.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

The provisions included in accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Society performed an evaluation of uncertain tax positions as of August 31, 2018, and determined that there were no matters that would require recognition in the financial statements or, which may have any effect on its tax-exempt status. As of August 31, 2018, the statute of limitations for fiscal years 2015 through 2018 remained open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the Society files tax returns. It is the Society's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update 2018-08, Not-for-Profit Entities (ASU 2018-08). This ASU clarifies and improves the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. The standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with an option for early adoption. The Society does not expect the adoption of ASU 2018-08 to have a significant effect on its financial statements.

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2017-14, Presentation of Financial Statements of Not-for-Profit Entities and ASU No. 2017-15, Classification of Certain Cash Receipts and Cash Payments, provide updated guidance on the reporting model for not-for-profits and the statement of cash flows. These standards are effective for periods beginning after December 15, 2018 and December 15, 2018, respectively. In February 2017, the FASB issued ASU No. 2017-02, Leases, that creates a singular reporting model for leases. This standard will be effective for periods beginning after December 15, 2019. Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). This ASU addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard provides clarity on the treatment of eight specifically defined types of cash inflows and outflows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with an option for early adoption. The Society does not expect the adoption of ASU 2016-15 to have a significant effect on its financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities that provides updated guidance on the reporting model for not-for-profits and the statement of cash flows. This standard is effective for periods beginning after December 15, 2017. The Society is evaluating the effects of this pronouncement on the financial statements, and will implement this pronouncement by their effective dates. The Society does not believe the adoption of this pronouncement will have a material effect on the financial statements.

Subsequent Events

As of August 31, 2018, Ford's Theatre Society was under contract to purchase the property located at 512 10th Street NW, adjacent to the Society's Center for Education and Leadership building. A \$350,000 deposit had been paid into escrow to be applied to the purchase at closing. In addition, costs for due diligence, legal services, an architectural study, and project management had been incurred. The purchase closed after the end of the fiscal year, on September 6, 2018. The purchase was financed with an \$8.75 million loan from Bank of America. The purchase contract allows for the previous owners to continue operating out of the property for 12 months. During this 12 month period, the Society will be planning, and implementing the early phase of, a comprehensive campaign that will include support for this purchase, renovations to the building, and expanded programming.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Society's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

3. PLEDGES RECEIVABLE

As of August 31, 2018 and 2017, the capital campaign pledge outstanding was expected to be collected as follows:

	<u>2018</u>	<u>2017</u>
Capital Campaign		
Less than one year	\$ 45,000	\$ 45,000
One to five years	<u>45,000</u>	<u>90,000</u>
Total	90,000	135,000
Less: Discount to present value	<u>2,250</u>	<u>5,730</u>
Total Capital Campaign Receivable, Net	<u>\$ 87,750</u>	<u>\$ 129,270</u>

The one outstanding pledge initially made in 2007 has been renegotiated several times. The pledge is scheduled to be paid by December 2019.

Other pledges receivable of \$254,097 and \$1,478,314, as of August 31, 2018 and 2017, respectively, are all due within one year.

4. INVESTMENTS

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of August 31, 2018.

Money market funds: Valued at the closing price of the underlying market value of investments.

Fixed income, alternative, and equity mutual funds: Valued at the net asset value (NAV) of shares held at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

4. INVESTMENTS (continued)

For the years ended August 31, 2018 and 2017, investment income (loss) consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 474,343	\$ 461,521
Realized and unrealized gain	609,618	842,079
Total	\$ 1,083,961	\$ 1,303,600

Investments, at fair value, consisted of the following as of August 31, 2018 and 2017:

	<u>August 31, 2018</u>	
	<u>Cost</u>	<u>Fair Value - Level 1</u>
Large Cap	\$ 3,626,544	\$ 4,678,342
Small/Mid Cap	1,498,633	1,866,841
International equities	1,787,099	2,144,321
Fixed income mutual funds	4,897,903	4,681,725
Alternative	941,384	1,103,011
Cash	36,857	36,857
Total	\$ 12,788,420	\$ 14,511,097

	<u>August 31, 2017</u>	
	<u>Cost</u>	<u>Fair Value - Level 1</u>
Large Cap	\$ 3,540,492	\$ 4,076,357
Small/Mid Cap	1,498,633	1,505,379
International equities	2,082,694	2,557,398
Fixed income mutual funds	5,011,135	4,942,570
Alternative	905,139	1,030,252
Cash	17,133	17,133
Total	\$ 13,055,226	\$ 14,129,089

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

5. PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2018 and 2017, consisted of:

	<u>2018</u>	<u>2017</u>	<u>Useful Lives</u>
Building and improvements for 514	\$ 26,311,140	26,307,219	10 - 30 years
Capital projects in progress	522,508	-	N/A
Leasehold improvements for Federal Property and Atlantic Lobby	12,855,115	12,853,330	10 - 30 years
Production and audio equipment	1,336,232	1,322,641	3-20 years
Furniture and office equipment	575,463	568,688	3-5 years
Computer equipment and website	1,078,555	784,187	3-5 years
Vehicle	26,018	26,018	5 years
Art	11,000	11,000	N/A
Total	<u>42,716,031</u>	<u>41,873,083</u>	
Less: accumulated depreciation	12,182,875	10,674,548	
Property and Equipment, net	<u>\$ 30,533,156</u>	<u>\$ 31,198,535</u>	

Depreciation and amortization expense for the years ended August 31, 2018 and 2017, was \$1,525,252 and \$1,488,050, respectively.

6. LINE OF CREDIT

In March 2017, the Society established an operating line of credit in the amount of \$1,200,000. Under the terms of this agreement, the Society is to pay interest monthly at the LIBOR Daily Floating Rate plus 3%, until the line of credit is paid in full. The line of credit expires on January 31, 2019. There was no balance outstanding as of August 31, 2018 and 2017.

7. RESTRICTIONS OF NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets as of August 31, 2018 and 2017, were available for the following purposes:

	<u>2018</u>	<u>2017</u>
Endowment earnings not yet appropriated for expenditure	\$ 5,850,236	\$ 5,482,990
Productions and Programming	290,000	1,175,000
Digital Projects	140,056	620,140
Fundraising and Gala	120,000	174,143
Future Capital Campaign	20,016	-
Total	<u>\$ 6,420,308</u>	<u>\$ 7,452,273</u>

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

7. RESTRICTIONS OF NET ASSETS (continued)

Temporarily Restricted Net Assets (continued)

Any capital campaign contributions received in excess of capital campaign expenses are allowed to be used at the discretion of the board. The contributions remain in temporarily restricted net assets until the funds are spent.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events during the years ended August 31, 2018 and 2017, as follows:

	<u>2018</u>	<u>2017</u>
Endowment earnings appropriated for expenditure	\$ 672,379	\$ 634,210
Productions and Programming	1,175,000	50,000
Digital Projects	687,156	327,044
Fundraising and Gala	145,075	166,050
Total	<u>\$ 2,679,610</u>	<u>\$ 1,177,304</u>

8. ENDOWMENTS

The Mary Jane Wick Endowment Fund, also known as the Frankie Hewitt Endowment, was established through restricted contributions from donors. It requires that, in perpetuity, the principal be invested and that the income be used for unrestricted operating activities. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the Society has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Society classifies permanently restricted net assets as:

- the original value of gifts donated to the permanent endowment;
- the original value of subsequent gifts to the permanent endowment; and
- accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

8. ENDOWMENTS (continued)

Interpretation of Relevant Law (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- the duration and preservation of the fund;
- the purposes of the organization and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the organization; and
- the investment policies of the organization.

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in funds to achieve growth in principal value and income over time that is sufficient to preserve or increase the purchasing power of the funds, thus protecting the funds against inflation and ensuring a real return on assets over the rate of inflation.

Spending Policy

Income from the endowment fund is distributed based on a spending rate up to 5% of the average balance of the endowment invested funds from the previous three years (drawn on a quarterly basis), as established by the Society's Board of Trustees. During the years ended August 31, 2018 and 2017, \$672,379 and \$634,210, respectively, was distributed to operations.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

8. ENDOWMENTS (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Society 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 Society's current asset allocation for board-designated and endowment funds targets a composition of 10% non-correlative investments, 35% fixed income, and 55% equity.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA required the Society to retain as a fund for perpetual duration. There were no such deficiencies as of August 31, 2018 or 2017.

The endowment net asset composition by type of fund as of August 31, 2018 and 2017, was as follows:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 5,850,236</u>	<u>\$ 5,350,164</u>	<u>\$ 11,200,400</u>

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 5,482,990</u>	<u>\$ 5,350,164</u>	<u>\$ 10,833,154</u>

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

8. ENDOWMENTS (continued)

Funds with Deficiencies (continued)

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

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 5,482,990	\$ 5,350,164	\$ 10,833,154
Investment return:			
Investment income	417,465	-	417,465
Net realized and unrealized gain	642,160	-	642,160
Total investment return	1,059,625	-	1,059,625
Investment fees	(20,000)	-	(20,000)
Appropriation of endowment assets for expenditure	(672,379)	-	(672,379)
Endowment Net Assets, End of Year	\$ 5,850,236	\$ 5,350,164	\$ 11,200,400
	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 4,948,117	\$ 5,350,164	\$ 10,298,281
Investment return:			
Investment income	374,771	-	374,771
Net realized and unrealized gain	814,312	-	814,312
Total investment return	1,189,083	-	1,189,083
Investment fees	(20,000)	-	(20,000)
Appropriation of endowment assets for expenditure	(634,210)	-	(634,210)
Endowment Net Assets, End of Year	\$ 5,482,990	\$ 5,350,164	\$ 10,833,154

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

During 2017, the Society renewed its operating lease to a ten-year non-cancellable operating lease for lobby space through 2027. The lease includes a 2.00% escalation per year.

The Society has a long-term partnership agreement with the U.S. Department of the Interior, National Park Service (NPS) allowing the Society use of the historic structure for theatrical productions and educational programs.

Future minimum rental payments under the operating leases as of August 31, 2018, were as follows:

<u>For the Years Ending August 31,</u>	<u>Amount</u>
2019	\$ 341,646
2020	348,479
2021	355,449
2022	362,558
2023	369,809
2024-2027	1,286,073
Total	<u><u>\$ 3,064,014</u></u>

The total lease expense, which includes the rental payments plus pass-through property taxes and other incidental expenses, for the years ended August 31, 2018 and 2017, was \$431,570 and \$459,564, respectively.

Grants

As of August 31, 2018, the Society had several grants from the U.S. government, D.C. government and other entities. Revenue from such grants is recognized only to the extent of actual expenses incurred in compliance with those grants. For government grants, expenses incurred in excess of funds collected are reflected as grants receivable and cash receipts obtained prior to expenses being incurred are reflected as deferred revenue.

Reimbursed costs under the Society's government awards are subject to final determination of allowability by the government agency. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2018 and 2017

10. RETIREMENT PLANS

The Ford's Theatre Society Retirement Plan (the Plan) provides retirement benefits for eligible employees of the Society, excluding members of a collective bargaining unit. The Plan operates on a calendar plan year. This 401(k) Plan allows eligible employees to make elective contributions to the plan within IRS guidelines and limits. The employer may annually elect to provide a dollar for dollar match of employee contributions in an amount from 0% to 5% of an employee's salary. The Plan elected not to provide a match for the 2017 or 2018 plan years. The employer elected to provide a safe harbor contribution for the 2017 and 2018 plan years. This safe harbor contribution is equal to 3% of an eligible employee's salary. The employer can also make other non-elective contributions to eligible employees. The employer elected to make a non-elective contribution of 2% for the 2017 and 2018 plan years. Employee elective and Employer safe harbor contributions are 100% vested at the time of the contribution. Employer non-elective contributions are 100% vested after three years of service.

The retirement contributions expense of \$187,217 and \$177,486, has been accrued during the years ended August 31, 2018 and 2017, respectively, and are reflected in the accompanying consolidated statement of activities and changes in net assets.

The Society contributed to other retirement plans on behalf of the Society's union members during the years ended August 31, 2018 and 2017. Total pension expense for these other retirement plans totaled \$373,956 and \$392,710, for the years ended August 31, 2018 and 2017, respectively, and is reflected in the accompanying consolidated statements of activities and changes in net assets.

In October 2015, the Society established an Executive deferred compensation plan. The plan is subject to section 457(f) of the Internal Revenue Code.

The Society will credit a fixed percentage of Executive's basic salary by October 15th of each fiscal year. The plan will be further credited (or debited) with investment gains (or losses) corresponding to the investment vehicle designated by the Executive. The Executive will be vested in the plan August 31, 2020. As of August 31, 2018 and 2017, the value of the plan was \$96,375 and \$59,043, respectively, which is included in accounts payable and accrued expenses on the consolidated statements of financial position.