

FORD'S THEATRE SOCIETY

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

For the Years Ended August 31, 2019 and 2018



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AUGUST 31, 2019 AND 2018

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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, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Society as of August 31, 2019 and 2018, 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 25, 2019

SB & Company, LLC

FORD'S THEATRE SOCIETY**Consolidated Statements of Financial Position
As of August 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 3,213,972	\$ 2,282,881
Investments	14,431,930	14,511,097
Restricted investments	117,734	96,375
Accounts receivable	32,730	37,293
Previous capital campaign pledges receivable, net	45,000	87,750
Current capital campaign pledges receivable, net	2,294,332	-
Other pledges receivable	280,252	254,097
Direct pre-production expenses	231,758	329,729
Prepaid expenses and other assets	410,629	323,406
Property and equipment, net	38,765,812	30,533,156
Total Assets	<u>\$ 59,824,149</u>	<u>\$ 48,455,784</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,121,657	\$ 949,778
Advance ticket sales	567,238	604,347
Note payable	8,750,000	-
Total Liabilities	<u>10,438,895</u>	<u>1,554,125</u>
Net Assets		
Without donor restrictions:		
Operational use	33,916,452	34,663,555
Board designated	467,632	467,632
Total net assets without donor restrictions	<u>34,384,084</u>	<u>35,131,187</u>
With donor restrictions:	<u>15,001,170</u>	<u>11,770,472</u>
Total Net Assets	<u>49,385,254</u>	<u>46,901,659</u>
Total Liabilities and Net Assets	<u>\$ 59,824,149</u>	<u>\$ 48,455,784</u>

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, 2019 with Comparative Totals for 2018

	2019			With Donor Restrictions	Total	2018 Totals
	Operational Use	Board Designated	Total			
OPERATING REVENUE						
Production revenue	\$ 5,449,531	\$ -	\$ 5,449,531	\$ -	\$ 5,449,531	\$ 4,901,738
Day visits and audio tours	1,037,036	-	1,037,036	-	1,037,036	1,038,769
Endowment return appropriated for expenditure	700,016	-	700,016	(700,016)	-	-
Other revenue	728,083	-	728,083	-	728,083	591,398
Total Operating Revenue	7,914,666	-	7,914,666	(700,016)	7,214,650	6,531,905
OPERATING SUPPORT						
Gala revenue	1,865,000	-	1,865,000	-	1,865,000	1,815,500
Public support contributions	4,420,072	-	4,420,072	3,751,509	8,171,581	3,400,848
Government support	695,936	-	695,936	158,914	854,850	976,663
In-kind contributions	416,405	-	416,405	-	416,405	648,498
Net assets released from restrictions:						
Satisfaction of program restrictions	330,000	-	330,000	(330,000)	-	-
Total Operating Support	7,727,413	-	7,727,413	3,580,423	11,307,836	6,841,509
Total Operating Revenue and Support	15,642,079	-	15,642,079	2,880,407	18,522,486	13,373,414
OPERATING EXPENSES						
Program services:						
Artistic, production and technical	7,663,114	-	7,663,114	-	7,663,114	7,211,605
Outreach and education	806,865	-	806,865	-	806,865	788,824
Total Program Services	8,469,979	-	8,469,979	-	8,469,979	8,000,429
Supporting Services:						
Marketing and public relations	1,703,273	-	1,703,273	-	1,703,273	1,627,536
General and administrative	2,900,613	-	2,900,613	-	2,900,613	3,514,977
Fundraising	1,298,424	-	1,298,424	-	1,298,424	1,433,009
Gala production	390,899	-	390,899	-	390,899	465,789
Total Supporting Services	6,293,209	-	6,293,209	-	6,293,209	7,041,311
Total Operating Expenses	14,763,188	-	14,763,188	-	14,763,188	15,041,740
Changes in net assets from operations	878,891	-	878,891	2,880,407	3,759,298	(1,668,326)
NON-OPERATING ACTIVITIES						
Capital campaign expense	(440,980)	-	(440,980)	-	(440,980)	-
Depreciation	(1,450,567)	-	(1,450,567)	-	(1,450,567)	(1,525,252)
Investment income	265,553	-	265,553	350,291	615,844	1,083,961
Excess (Deficiency) of Non-Operating Activities	(1,625,994)	-	(1,625,994)	350,291	(1,275,703)	(441,291)
Changes in net assets	(747,103)	-	(747,103)	3,230,698	2,483,595	(2,109,617)
Net assets, beginning of year	34,663,555	467,632	35,131,187	11,770,472	46,901,659	49,011,276
Net Assets, End of Year	\$ 33,916,452	\$ 467,632	\$ 34,384,084	\$ 15,001,170	\$ 49,385,254	\$ 46,901,659

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, 2018

	2018				
	Without donor restrictions			With Donor Restrictions	Total
	Operational Use	Board Designated	Total		
OPERATING REVENUE					
Production revenue	\$ 4,901,738	\$ -	\$ 4,901,738	\$ -	\$ 4,901,738
Day visits and audio tours	1,038,769	-	1,038,769	-	1,038,769
Endowment return appropriated for expenditure	672,379	-	672,379	(672,379)	-
Other revenue	591,398	-	591,398	-	591,398
Total Operating Revenue	7,204,284	-	7,204,284	(672,379)	6,531,905
OPERATING SUPPORT					
Gala revenue	1,815,500	-	1,815,500	-	1,815,500
Public support contributions	2,940,832	-	2,940,832	460,016	3,400,848
Government support	828,659	-	828,659	148,004	976,663
In-kind contributions	648,498	-	648,498	-	648,498
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
Total Operating Revenue and Support	15,509,372	(64,368)	15,445,004	(2,071,590)	13,373,414
OPERATING EXPENSES					
Program services:					
Artistic, production and technical	7,790,275	-	7,790,275	-	7,790,275
Outreach and education	788,824	-	788,824	-	788,824
Total Program Services	8,579,099	-	8,579,099	-	8,579,099
Supporting Services:					
Marketing and public relations	1,627,536	-	1,627,536	-	1,627,536
General and administrative	2,936,307	-	2,936,307	-	2,936,307
Fundraising	1,433,009	-	1,433,009	-	1,433,009
Gala production	465,789	-	465,789	-	465,789
Total Supporting Services	6,462,641	-	6,462,641	-	6,462,641
Total Operating Expenses	15,041,740	-	15,041,740	-	15,041,740
Changes in net assets from operations	467,632	(64,368)	403,264	(2,071,590)	(1,668,326)
NON-OPERATING ACTIVITIES					
Depreciation and amortization	(1,525,252)	-	(1,525,252)	-	(1,525,252)
Investment income	44,336	-	44,336	1,039,625	1,083,961
Excess (Deficiency) of Non-Operating Activities	(1,480,916)	-	(1,480,916)	1,039,625	(441,291)
Changes in net assets	(1,013,284)	(64,368)	(1,077,652)	(1,031,965)	(2,109,617)
Net assets, beginning of year	35,676,839	532,000	36,208,839	12,802,437	49,011,276
Net Assets, End of Year	\$ 34,663,555	\$ 467,632	\$ 35,131,187	\$ 11,770,472	\$ 46,901,659

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 2,483,595	\$ (2,109,617)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	1,450,567	1,525,252
Net realized and unrealized gain on investments	(215,194)	(609,618)
Effects from changes in non-cash operating assets and liabilities:		
Accounts receivable	4,563	37,869
Other pledges receivable	(26,155)	1,224,217
Direct pre-production expenses	97,971	47,780
Prepaid expenses and other assets	(87,223)	(14,170)
Accounts payable and accrued expenses	171,879	38,141
Advance ticket sales	(37,109)	(225,229)
Net Cash from Operating Activities	<u>3,842,894</u>	<u>(85,375)</u>
Cash Flows from Investing Activities		
Purchase of investments	(293,602)	-
Proceeds from sale of investments	566,602	190,280
Purchases of property and equipment	(9,683,221)	(859,875)
Net Cash from Investing Activities	<u>(9,410,221)</u>	<u>(669,595)</u>
Cash Flows from Financing Activities		
Change in contributions restricted for previous capital campaign	42,750	41,520
Change in contributions restricted for current capital campaign	(2,294,332)	-
Proceeds from note payable	8,750,000	-
Net Cash from Financing Activities	<u>6,498,418</u>	<u>41,520</u>
Net change in cash and cash equivalents	931,091	(713,450)
Cash and cash equivalents, beginning of year	2,282,881	2,996,331
Cash and Cash Equivalents, End of Year	<u>\$ 3,213,972</u>	<u>\$ 2,282,881</u>

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

FORD'S THEATRE SOCIETY

Consolidated Statement of Functional Expenses For the Year Ended August 31, 2019 with Comparative Totals for 2018

	Program Services			Supporting Services					Total Expenses	2018 Total
	Artistic, production and technical	Outreach and education	Total Program Services	Marketing and public relations	General and Administrative	Fundraising	Gala production	Total Supporting Services		
Salaries and benefits	\$ 4,630,754	\$ 516,052	\$ 5,146,806	\$ 705,572	\$ 1,466,145	\$ 681,236	\$ 121,805	\$ 2,974,758	\$ 8,121,564	\$ 8,199,594
Payroll taxes	310,968	30,357	341,325	50,554	97,836	58,652	6,455	213,497	554,822	537,683
Production	1,375,901	53,421	1,429,322	-	-	46,366	136,974	183,340	1,612,662	1,769,493
Professional fees	12,947	488	13,435	154,995	609,369	21,402	-	785,766	799,201	977,646
Advertising and promotion	-	1,040	1,040	640,411	-	-	-	640,411	641,451	619,958
Office expenses	152,002	5,803	157,805	2,672	149,911	11,231	3,254	167,068	324,873	316,120
Information technology	1,198	2,974	4,172	8,000	89,342	-	-	97,342	101,514	90,900
Occupancy	576,103	9,820	585,923	-	287,613	-	12,500	300,113	886,036	858,611
Travel and housing	137,595	140,229	277,824	2,257	782	6,416	73,197	82,652	360,476	424,717
Meetings and conferences	15,611	1,760	17,371	-	1,040	-	-	1,040	18,411	3,172
Catering	3,426	14,897	18,323	44	432	361,864	-	362,340	380,663	404,299
Insurance	50,664	-	50,664	-	50,664	-	-	50,664	101,328	85,666
Subscriptions and dues	745	7,173	7,918	8,908	26,891	14,359	-	50,158	58,076	51,154
Printing and reproduction	3,398	7,720	11,118	80,332	1,639	41,480	7,157	130,608	141,726	121,384
Bad debt expense	-	-	-	-	-	-	-	-	-	-
Staff training	-	11,826	11,826	5,690	22,640	6,244	-	34,574	46,400	35,752
Miscellaneous	391,802	3,305	395,107	43,838	96,309	49,174	29,557	218,878	613,985	545,591
Total expenses before depreciation and campaign	7,663,114	806,865	8,469,979	1,703,273	2,900,613	1,298,424	390,899	6,293,209	14,763,188	15,041,740
Depreciation	1,153,235	-	1,153,235	-	297,332	-	-	297,332	1,450,567	1,525,252
Capital Campaign	-	-	-	-	-	440,980	-	440,980	440,980	-
Total Expenses	\$ 8,816,349	\$ 806,865	\$ 9,623,214	\$ 1,703,273	\$ 3,197,945	\$ 1,739,404	\$ 390,899	\$ 7,031,521	\$ 16,654,735	\$ 16,566,992

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

FORD'S THEATRE SOCIETY

**Consolidated Statement of Functional Expenses
For the Year Ended August 31, 2018**

	Program Services			Supporting Services				Total Supporting Services	Total Expenses
	Artistic, production and technical	Outreach and education	Total Program Services	Marketing and public relations	General and Administrative	Fundraising	Gala production		
Salaries and benefits	\$ 4,658,155	\$ 503,924	\$ 5,162,079	\$ 716,946	\$ 1,402,426	\$ 784,377	\$ 133,766	\$ 3,037,515	\$ 8,199,594
Payroll taxes	304,664	29,191	333,855	50,735	90,418	55,705	6,970	203,828	537,683
Production	1,517,308	56,373	1,573,681	-	-	47,625	148,187	195,812	1,769,493
Professional fees	5,636	325	5,961	130,624	798,859	42,202	-	971,685	977,646
Advertising and promotion	-	1,691	1,691	618,267	-	-	-	618,267	619,958
Office expenses	142,975	12,214	155,189	3,987	138,932	15,414	2,598	160,931	316,120
Information technology	-	2,640	2,640	8,000	80,260	-	-	88,260	90,900
Occupancy	560,857	10,542	571,399	-	276,037	-	11,175	287,212	858,611
Travel and housing	181,371	130,945	312,316	3,121	6,563	8,228	94,489	112,401	424,717
Meeting and conferences	1,248	1,726	2,974	-	198	-	-	198	3,172
Catering	15,508	12,442	27,950	162	916	375,271	-	376,349	404,299
Insurance	42,833	-	42,833	-	42,833	-	-	42,833	85,666
Subscriptions and dues	1,732	3,993	5,725	12,309	18,145	14,975	-	45,429	51,154
Printing and production	1,559	11,872	13,431	48,008	6,523	45,646	7,776	107,953	121,384
Staff training	-	8,609	8,609	6,220	16,131	4,792	-	27,143	35,752
Miscellaneous	356,429	2,337	358,766	29,157	58,066	38,774	60,828	186,825	545,591
Total expenses before depreciation	7,790,275	788,824	8,579,099	1,627,536	2,936,307	1,433,009	465,789	6,462,641	15,041,740
Depreciation	1,210,753	-	1,210,753	-	314,499	-	-	314,499	1,525,252
Total Expenses	\$ 9,001,028	\$ 788,824	\$ 8,579,099	\$ 1,627,536	\$ 3,250,806	\$ 1,433,009	\$ 465,789	\$ 6,777,140	\$ 16,566,992

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

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

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 in 2012, Ford's Theatre became 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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018, 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% as of August 31, 2019 and 2018.

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. This also includes costs incurred through August 31, 2019 for planned improvements to the newly purchased 512 10th Street NW building.

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, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent resources available to support the Society's operations. During 2018 and 2019, the board designated \$467,632 of net assets to support future year operations. The year to year balance of these board designated net assets is provided below:

	<u>Amount</u>
Board designated net assets (August 31, 2015)	\$ 1,000,000
FY2016 Net Change	(578,893)
FY2017 Net Change	110,893
FY2018 Net Change	(64,368)
FY2019 Net Change	-
Board designated net assets (August 31, 2019)	<u><u>\$ 467,632</u></u>

Net assets with donor restrictions 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 net assets without donor restrictions.

Net assets with donor restrictions endowments represent contributions and other assets to be held as investments in perpetuity, as directed by the original donor. The income from these investments is included in net assets with donor restrictions to support operating activities of the Society.

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions.

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, 2019 and 2018

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 for which the advertising is related. Advertising expense for the years ended August 31, 2019 and 2018, was \$622,878 and \$602,034, 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 and in the consolidated statement of functional expenses. 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.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

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, 2019, 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, 2019, the statute of limitations for fiscal years 2016 through 2019 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.

Liquidity and Availability of Resources

As part of the Society liquidity management, the Society has a policy to structure its financial assets to be available as its operating expenses, liabilities, and other obligations become due. The Society has a line of credit available to assist with liquidity management.

The following table reflects the Society's financial assets as of August 31, 2019, reduced by amounts that are not available to meet general expenditures within one year.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity and Availability of Resources (continued)

Financial assets at year end:

Cash and cash equivalents	\$ 3,213,972
Investments	14,431,930
Restricted Investments	117,734
Accounts Receivable	32,730
Previous capital campaign pledges receivable	45,000
Current capital campaign pledges receivable, net	2,294,332
Other pledges receivable	280,252
Total financial assets at year end	<u>20,415,950</u>
Less donor-imposed restrictions:	
Endowment funds	5,350,164
Donor contributions restricted by time or for specific purpose	9,651,006
Restricted investments	117,734
Financial assets available to meet cash needs for general expenditures within one year before board designations	<u>5,297,046</u>
Board designated funds	467,632
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 4,829,414</u></u>

Implemented Accounting Pronouncements

In August 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment returns, expenses, liquidity and availability of resources, and presentation of operating cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. The Society implemented ASU 2016-14 for the year ended August 31, 2019. Due to the adoption of this ASU, the presentation of these financial statements and footnotes were updated accordingly.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (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. This standard is effective for periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard will require the Society to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases and Leases (Topic 842): Targeted Improvements*, which provide further clarity and transition options for adoption of FASB ASU No. 2016-02. These standards 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.

Subsequent Events

The Society's management evaluated the accompanying financial statements for subsequent events and transactions through November 25, 2019, the date the financial statements were available for issue, and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. PLEDGES RECEIVABLE

As of August 31, 2019 and 2018, the capital campaign pledge outstanding was expected to be collected as follows:

	<u>2019</u>	<u>2018</u>
Capital Campaign		
Less than one year	\$ 696,328	\$ 45,000
One to five years	<u>1,802,655</u>	<u>45,000</u>
Total	2,498,983	90,000
Less: Discount to present value	<u>159,651</u>	<u>2,250</u>
Total Capital Campaign Receivable, Net	<u>\$ 2,339,332</u>	<u>\$ 87,750</u>

Other pledges receivable of \$280,252 and \$254,097, as of August 31, 2019 and 2018, respectively, are all due within one year.

The remaining capital campaign pledge receivable related to the previous campaign is \$45,000, which is due in fiscal year 2019.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

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, 2019.

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.

For the years ended August 31, 2019 and 2018, investment income (loss) consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 400,650	\$ 474,343
Realized and unrealized gain	<u>215,194</u>	<u>609,618</u>
Total	<u>\$ 615,844</u>	<u>\$ 1,083,961</u>

FORD'S THEATRE SOCIETY

**Notes to the Consolidated Financial Statements
August 31, 2019 and 2018**

4. INVESTMENTS (continued)

Investments, at fair value, consisted of the following as of August 31, 2019 and 2018:

	August 31, 2019	
Investments	Cost	Fair Value - Level 1
Cash and cash equivalents	\$ 1,076,532	\$ 1,080,029
Large cap	3,874,022	4,687,880
Small/mid cap	1,397,463	1,538,044
International equities	2,059,682	2,156,516
Fixed income mutual funds	4,887,400	4,969,461
Total Investments	\$ 13,295,100	\$ 14,431,930
Restricted Investments		
Blended mutual funds	<u>\$ 113,020</u>	<u>\$ 117,734</u>

	August 31, 2018	
Investments	Cost	Fair Value - Level 1
Cash and cash equivalents	\$ 36,857	\$ 36,857
Large cap	3,636,544	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
Total Investments	\$ 12,798,420	\$ 14,511,097
Restricted Investments		
Blended mutual funds	<u>\$ 78,620</u>	<u>\$ 96,375</u>

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

5. PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2019 and 2018, consisted of:

	<u>2019</u>	<u>2018</u>	<u>Useful Lives</u>
Building and improvements (514 10th St)	\$ 26,311,139	\$ 26,311,140	10 - 30 years
Building (512 10th St)	8,877,087	369,551	10 - 30 years
Capital projects in progress	1,200,947	152,957	N/A
Leasehold improvements for Federal Property and Atlantic Lobby	12,865,615	12,855,115	10 - 30 years
Production and audio equipment	1,390,102	1,336,232	3-20 years
Furniture and office equipment	575,881	575,463	3-5 years
Computer equipment and website	1,102,047	1,078,555	3-5 years
Vehicle	26,018	26,018	5 years
Art	11,000	11,000	N/A
Total	<u>52,359,836</u>	<u>42,716,031</u>	
Less: accumulated depreciation	13,594,024	12,182,875	
Property and Equipment, net	<u>\$ 38,765,812</u>	<u>\$ 30,533,156</u>	

Depreciation and amortization expense for the years ended August 31, 2019 and 2018, was \$1,450,567 and \$1,525,252, 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 August 31, 2020. There was no balance outstanding as of August 31, 2019 and 2018.

7. NOTE PAYABLE

As of August 31, 2019, the Society had the following note payable outstanding:

	<u>2019</u>
Note Payable	<u>\$ 8,750,000</u>
Total	<u>\$ 8,750,000</u>

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

7. NOTE PAYABLE (continued)

On September 6, 2018, the Society entered into a loan agreement with Bank of America for \$8,750,000 for the purchase of the property located at 512 10th Street N.W., which was secured by a first deed of trust on the Society's real property at 512 10th Street. N.W., Washington, DC. The note has an interest rate per year equal to the LIBOR Rate (Adjusted Periodically) plus two and twenty-five one-hundredths (2.25) percentage points. The note calls for monthly interest only payments starting October 1, 2018 until maturity. Maturity date on the loan is August 31, 2020.

Interest expense for the year ended August 31, 2019 was \$371,687. The note includes a covenant that audited financial statements must be presented to the bank within 120 days after fiscal year end and the note includes a covenant that requires a debt service coverage ratio of at least 1.20 to 1.00, as of the last day of each fiscal year.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of August 31, 2019 and 2018, were available for the following purposes:

	<u>2019</u>	<u>2018</u>
Endowment earnings not yet appropriated for expenditure	\$ 5,500,511	\$ 5,850,236
Endowment earnings restricted in perpetuity	5,350,164	5,350,164
Productions and Programming	250,000	290,000
Digital Projects	148,971	140,056
Fundraising and Gala	240,000	120,000
Capital Campaign	3,511,524	20,016
Total	<u>\$ 15,001,170</u>	<u>\$ 11,770,472</u>

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 net assets with donor restrictions until the funds are spent.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

8. NET ASSETS WITH DONOR RESTRICTIONS (continued)

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, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
Endowment earnings appropriated for expenditure	\$ 700,016	\$ 672,379
Productions and Programming	250,000	1,175,000
Digital Projects	-	687,156
Fundraising and Gala	80,000	145,075
Total	<u>\$ 1,030,016</u>	<u>\$ 2,679,610</u>

9. 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 donor-restricted net assets as:

- the original value of gifts donated to the donor-restricted endowment;
- the original value of subsequent gifts to the donor-restricted 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, 2019 and 2018

9. ENDOWMENTS (continued)

Interpretation of Relevant Law (continued)

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, 2019 and 2018, \$700,016 and \$672,379, respectively, was distributed to operations.

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.

FORD'S THEATRE SOCIETY

**Notes to the Consolidated Financial Statements
August 31, 2019 and 2018**

9. ENDOWMENTS (continued)

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, 2019 or 2018.**

The endowment net asset composition by type of fund as of August 31, 2019 and 2018, was as follows:

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Available for Appropriation</u>	<u>In Perpetuity</u>	
Donor-restricted endowment funds	<u>\$ 5,500,511</u>	<u>\$ 5,350,164</u>	<u>\$ 10,850,675</u>

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Available for Appropriation</u>	<u>In Perpetuity</u>	
Donor-restricted endowment funds	<u>\$ 5,850,236</u>	<u>\$ 5,350,164</u>	<u>\$ 11,200,400</u>

Changes in endowment net assets for the years ended August 31, 2019 and 2018, were as follows:

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Available for Appropriation</u>	<u>In Perpetuity</u>	
Endowment net assets, August 31, 2018	\$ 5,850,236	\$ 5,350,164	\$ 11,200,400
Investment return:			
Investment income	350,048	-	350,048
Net realized and unrealized gain	20,243	-	20,243
Total investment return	370,291	-	370,291
Investment fees	(20,000)	-	(20,000)
Amounts appropriated for expenditure	(700,016)	-	(700,016)
Changes in net assets	(349,725)	-	(349,725)
Endowment Net Assets, August 31, 2019	<u>\$ 5,500,511</u>	<u>\$ 5,350,164</u>	<u>\$ 10,850,675</u>

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

9. ENDOWMENTS (continued)

Funds with Deficiencies (continued)

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Available for Appropriation</u>	<u>In Perpetuity</u>	
Endowment net assets, August 31, 2017	\$ 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)
Changes in net assets	367,246	-	367,246
Endowment Net Assets, August 31, 2018	<u>\$ 5,850,236</u>	<u>\$ 5,350,164</u>	<u>\$ 11,200,400</u>

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

During 2017, the Society renewed its property 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.

FORD'S THEATRE SOCIETY

Notes to the Consolidated Financial Statements August 31, 2019 and 2018

10. COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases (continued)

Future minimum rental payments under the operating leases as of August 31, 2019, were as follows:

<u>For the Years Ending August 31,</u>	<u>Amount</u>
2020	\$ 348,479
2021	355,449
2022	362,558
2023	369,809
2024	377,205
2025-2027	908,868
Total	<u><u>\$ 2,722,368</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, 2019 and 2018, was \$446,855 and \$431,570, respectively.

Grants

As of August 31, 2019, the Society was awarded 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, 2019 and 2018

11. 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 2018 or 2019 plan years. The employer elected to provide a safe harbor contribution for the 2019 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 3% for the 2019 plan year and 2% for the 2018 plan year. 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 \$226,467 and \$187,217, has been accrued during the years ended August 31, 2019 and 2018, 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, 2019 and 2018. Total pension expense for these other retirement plans totaled \$380,589 and \$373,956, for the years ended August 31, 2019 and 2018, 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, 2019 and 2018, the value of the plan was \$117,734 and \$96,375, respectively, which is included in accounts payable and accrued expenses on the consolidated statements of financial position.