

Ford's Theatre Society

Consolidated Financial Report
August 31, 2020

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Independent Auditor's Report

Board of Trustees
Ford's Theatre Society

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ford's Theatre Society (the Society), which comprise the consolidated statement of financial position as of August 31, 2020, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ford's Theatre Society as of August 31, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Society as of and for the year ended August 31, 2019, were audited by other auditors whose report dated November 25, 2019 expressed an unmodified opinion on those financial statements.

RSM US LLP

Washington, D.C.
December 4, 2020

Ford's Theatre Society

**Consolidated Statements of Financial Position
August 31, 2020 and 2019**

	2020	2019
Assets		
Cash and cash equivalents	\$ 4,992,702	\$ 3,213,972
Investments	15,659,332	14,549,664
Accounts receivable	43,806	32,730
Promises to give, net:		
Current capital campaign	12,735,596	2,294,332
Previous capital campaign	-	45,000
Other promises to give	399,678	280,252
Direct pre-production expenses	312,088	231,758
Prepaid expenses and other assets	185,197	410,629
Property and equipment, net	39,427,911	38,765,812
Total assets	\$ 73,756,310	\$ 59,824,149
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 827,079	\$ 1,121,657
Advance ticket sales	243,164	567,238
Note payable	8,750,000	8,750,000
Forgivable loan	1,285,500	-
Total liabilities	11,105,743	10,438,895
Net assets:		
Without donor restrictions:		
Operational use	32,145,410	33,916,452
Board-designated	467,632	467,632
Total net assets without donor restrictions	32,613,042	34,384,084
With donor restrictions	30,037,525	15,001,170
Total net assets	62,650,567	49,385,254
Total liabilities and net assets	\$ 73,756,310	\$ 59,824,149

See notes to consolidated financial statements.

Ford's Theatre Society

Consolidated Statement of Activities Year Ended August 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Production revenue	\$ 3,182,440	\$ -	\$ 3,182,440
Other revenue	368,492	-	368,492
Day visits and audio tours revenue	313,711	-	313,711
Total revenue	3,864,643	-	3,864,643
Support:			
Public support contributions	4,232,570	14,739,522	18,972,092
Government grants	1,137,866	250,000	1,387,866
Gala contributions	1,325,000	-	1,325,000
In-kind contributions	410,789	-	410,789
Endowment return appropriated for expenditures	716,406	(716,406)	-
Net assets released from restrictions	470,000	(470,000)	-
Total support	8,292,631	13,803,116	22,095,747
Total revenue and support	12,157,274	13,803,116	25,960,390
Expenses:			
Program services:			
Artistic, production and technical	6,674,819	-	6,674,819
Outreach and education	817,331	-	817,331
Total program services	7,492,150	-	7,492,150
Supporting services:			
General and administrative	2,552,911	-	2,552,911
Marketing and public relations	1,536,187	-	1,536,187
Fundraising	1,054,586	-	1,054,586
Total supporting services	5,143,684	-	5,143,684
Total expenses before other activities	12,635,834	-	12,635,834
Changes in net assets before other activities	(478,560)	13,803,116	13,324,556
Other activities:			
Investment income	553,830	1,233,239	1,787,069
Depreciation and amortization	(1,460,001)	-	(1,460,001)
Capital campaign expense	(386,311)	-	(386,311)
Changes in net assets	(1,771,042)	15,036,355	13,265,313
Net assets:			
Beginning	34,384,084	15,001,170	49,385,254
Ending	\$ 32,613,042	\$ 30,037,525	\$ 62,650,567

See notes to consolidated financial statements.

Ford's Theatre Society

Consolidated Statement of Activities Year Ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Production revenue	\$ 5,449,531	\$ -	\$ 5,449,531
Other revenue	728,083	-	728,083
Day visits and audio tours revenue	1,037,036	-	1,037,036
Total revenue	7,214,650	-	7,214,650
Support:			
Public support contributions	4,420,072	3,751,509	8,171,581
Gala contributions	1,865,000	-	1,865,000
Government grants	695,936	158,914	854,850
In-kind contributions	416,405	-	416,405
Endowment return appropriated for expenditures	700,016	(700,016)	-
Net assets released from restrictions	330,000	(330,000)	-
Total support	8,427,429	2,880,407	11,307,836
Total revenue and support	15,642,079	2,880,407	18,522,486
Expenses:			
Program services:			
Artistic, production and technical	7,597,373	-	7,597,373
Outreach and education	859,783	-	859,783
Total program services	8,457,156	-	8,457,156
Supporting services:			
General and administrative	2,720,578	-	2,720,578
Marketing and public relations	1,789,051	-	1,789,051
Fundraising	1,381,244	-	1,381,244
Gala production	393,208	-	393,208
Total supporting services	6,284,081	-	6,284,081
Total expenses before other activities	14,741,237	-	14,741,237
Changes in net assets before other activities	900,842	2,880,407	3,781,249
Other activities:			
Investment income	243,602	350,291	593,893
Depreciation and amortization	(1,450,567)	-	(1,450,567)
Capital campaign expense	(440,980)	-	(440,980)
Changes in net assets	(747,103)	3,230,698	2,483,595
Net assets:			
Beginning	35,131,187	11,770,472	46,901,659
Ending	\$ 34,384,084	\$ 15,001,170	\$ 49,385,254

See notes to consolidated financial statements.

Ford's Theatre Society

**Consolidated Statement of Functional Expenses
Year Ended August 31, 2020**

	Program Services			Supporting Services				Total Expenses
	Artistic, Production and Technical	Outreach and Education	Total	General and Administrative	Marketing and Public Relations	Fundraising	Total	
Salaries and benefits	\$ 3,970,819	\$ 522,098	\$ 4,492,917	\$ 1,285,566	\$ 735,022	\$ 678,612	\$ 2,699,200	\$ 7,192,117
Production	1,310,322	73,684	1,384,006	-	-	815	815	1,384,821
Occupancy	557,279	73,273	630,552	180,421	103,156	95,239	378,816	1,009,368
Professional fees	23,250	750	24,000	706,375	41,745	6,587	754,707	778,707
Payroll taxes	286,320	30,989	317,309	84,497	52,137	62,368	199,002	516,311
Advertising and promotion	-	1,652	1,652	-	491,684	-	491,684	493,336
Miscellaneous	201,460	1,763	203,223	33,182	39,860	24,128	97,170	300,393
Office expenses	135,970	3,967	139,937	104,573	2,550	2,960	110,083	250,020
Travel and housing	125,821	76,696	202,517	949	1,543	439	2,931	205,448
Catering	136	4,104	4,240	142	13	130,096	130,251	134,491
Insurance	56,517	7,431	63,948	18,296	10,462	9,659	38,417	102,365
Information technology	105	3,144	3,249	98,809	-	-	98,809	102,058
Printing and reproduction	1,540	5,795	7,335	7,091	47,301	22,859	77,251	84,586
Subscriptions and dues	3,205	6,620	9,825	27,479	4,758	20,282	52,519	62,344
Staff training	-	2,177	2,177	5,531	5,956	542	12,029	14,206
Meetings and conferences	2,075	3,188	5,263	-	-	-	-	5,263
Total expenses before other activities	6,674,819	817,331	7,492,150	2,552,911	1,536,187	1,054,586	5,143,684	12,635,834
Depreciation and amortization	806,077	105,986	912,063	260,970	149,210	137,758	547,938	1,460,001
Capital campaign	-	-	-	-	-	386,311	386,311	386,311
Total expenses	\$ 7,480,896	\$ 923,317	\$ 8,404,213	\$ 2,813,881	\$ 1,685,397	\$ 1,578,655	\$ 6,077,933	\$ 14,482,146

See notes to consolidated financial statements.

Ford's Theatre Society

Consolidated Statement of Functional Expenses Year Ended August 31, 2019

	Program Services			Supporting Services					Total Expenses
	Artistic, Production and Technical	Outreach and Education	Total	General and Administrative	Marketing and Public Relations	Fundraising	Gala Production	Total	
Salaries and benefits	\$ 4,630,754	\$ 516,052	\$ 5,146,806	\$ 1,466,145	\$ 705,572	\$ 681,236	\$ 121,805	\$ 2,974,758	\$ 8,121,564
Production	1,375,901	53,421	1,429,322	-	-	46,366	136,974	183,340	1,612,662
Occupancy	505,200	56,300	561,500	159,951	76,975	74,321	13,289	324,536	886,036
Professional fees	10,998	488	11,486	589,369	154,995	21,402	-	765,766	777,252
Payroll taxes	310,968	30,357	341,325	97,836	50,554	58,652	6,455	213,497	554,822
Advertising and promotion	-	1,040	1,040	-	640,411	-	-	640,411	641,451
Miscellaneous	391,802	3,305	395,107	96,307	43,838	49,174	29,557	218,876	613,983
Office expenses	152,002	5,803	157,805	149,911	2,672	11,231	3,254	167,068	324,873
Travel and housing	137,595	140,229	277,824	782	2,257	6,416	73,197	82,652	360,476
Catering	3,426	14,897	18,323	432	44	361,864	-	362,340	380,663
Insurance	57,775	6,438	64,213	18,293	8,803	8,499	1,520	37,115	101,328
Information technology	1,198	2,974	4,172	89,342	8,000	-	-	97,342	101,514
Printing and reproduction	3,398	7,720	11,118	1,639	80,332	41,480	7,157	130,608	141,726
Subscriptions and dues	745	7,173	7,918	26,891	8,908	14,359	-	50,158	58,076
Staff training	-	11,826	11,826	22,640	5,690	6,244	-	34,574	46,400
Meetings and conferences	15,611	1,760	17,371	1,040	-	-	-	1,040	18,411
Total expenses before other activities	7,597,373	859,783	8,457,156	2,720,578	1,789,051	1,381,244	393,208	6,284,081	14,741,237
Depreciation and amortization	827,084	92,170	919,254	261,865	126,020	121,673	21,755	531,313	1,450,567
Capital campaign	-	-	-	-	-	440,980	-	440,980	440,980
Total expenses	\$ 8,424,457	\$ 951,953	\$ 9,376,410	\$ 2,982,443	\$ 1,915,071	\$ 1,943,897	\$ 414,963	\$ 7,256,374	\$ 16,632,784

See notes to consolidated financial statements.

Ford's Theatre Society

Consolidated Statements of Cash Flows Years Ended August 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 13,265,313	\$ 2,483,595
Adjustments to reconcile changes in net assets to net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(1,427,493)	(215,194)
Change in discount on promises to give	668,868	157,401
Bad debt loss	2,500,000	-
Bad debt expense	11,086	963
Depreciation and amortization	1,460,001	1,450,567
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(11,076)	3,600
Promises to give for current year capital campaign	(15,848,839)	(3,398,910)
Other promises to give	(130,512)	(26,155)
Direct pre-production expenses	(80,330)	97,971
Prepaid expenses and other assets	225,432	(87,223)
Increase (decrease) in:		
Accounts payable and accrued expenses	(294,578)	171,879
Advance ticket sales	(324,074)	(37,109)
Net cash provided by operating activities	13,798	601,385
Cash flows from investing activities:		
Proceeds from sales of investments	475,017	566,602
Purchases of investments	(157,192)	(293,602)
Purchases of property and equipment	(2,122,100)	(9,683,221)
Net cash used in investing activities	(1,804,275)	(9,410,221)
Cash flows from financing activities:		
Proceeds from promises to give for current capital campaign	2,238,707	947,177
Proceeds from promises to give for previous capital campaign	45,000	42,750
Proceeds from forgivable loan	1,285,500	-
Proceeds from note payable	-	8,750,000
Net cash (used in) provided by financing activities	3,569,207	9,739,927
Net increase in cash and cash equivalents	1,778,730	931,091
Cash and cash equivalents:		
Beginning	3,213,972	2,282,881
Ending	\$ 4,992,702	\$ 3,213,972
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 340,481	\$ 371,687

See notes to consolidated financial statements.

Ford's Society Theatre

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Ford's Theatre Society (the Society) was incorporated in 1967 as a nonprofit corporation in the District of Columbia. The Society celebrates the legacy of President Abraham Lincoln and explores the American experience through theatre and education.

Ford's Theatre officially reopened in 1968, more than one hundred years after the assassination of President Abraham Lincoln, as a national historic site and a theatre producing live performances. Ford's Theatre is operated through a public-private partnership with the National Park Service. Ford's Theatre offers inspiring theatrical productions, interactive museum exhibits and engaging education programs where visitors can immerse themselves in America's past while finding meaningful connections to the world today. 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.

The Mary Jane Wick Endowment Fund (the Endowment Fund) was incorporated in 1995 as a nonprofit corporation in the District of Columbia. The Endowment Fund was established to accept and receive contributions to be held in perpetuity for the benefit of the Society.

Program services include the following activities:

Artistic, production and technical: The activities of this program service include expenses related to production of all mainstage theatrical productions along with the seasonal runs of One Destiny and the Investigation, Detective McDevitt walking tour. Other programming includes virtual and in-person author talks, play readings and panel discussions on current events through a historical lens.

Outreach and education: The activities of this program service include virtual and in-person, local and national programs for students, teachers, and other learners, often related to oratory skills, civil war history and Lincoln's legacy. In addition, all museum and exhibit related expenses are included.

Supporting services include the following activities:

General and administrative: The activities of this supporting service include the administrative processes of the Society, such as managing operations and financial responsibilities.

Marketing and public relations: The activities of this supporting service include the promotion and advertising of all theatrical, education and museum related programming of the Society as well as general community and press relations.

Fundraising: The activities of this supporting service include new donor acquisition, major donor cultivation and other activities that encourage and secure financial support for the Society.

A summary of the Society's significant accounting policies follows:

Principles of consolidation: The financial statements include the accounts of the Society and the Endowment Fund. Significant inter-entity accounts and transactions have been eliminated in consolidation. For purposes of this report, the entities are collectively referred to as the Society.

Basis of accounting: The financial statements of the Society are presented on the accrual basis of accounting. Consequently, revenue, other than contributions, is recognized when earned and expenses are recognized when the obligations are incurred.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Basis of presentation: The Society follows the accounting requirements of the Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under the FASB ASC, the Society is required to report information regarding its net assets and its activities according to two categories: 1) net assets without donor restrictions and 2) net assets with donor restrictions.

Without donor restrictions: Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by Board designation. The Society has a Board-designated fund which was established during the year ended August 31, 2015, as a result of an original Board-designation totaling \$1,000,000. Board-designated net assets totaled \$467,632 as of August 31, 2020 and 2019.

With donor restrictions: Net assets with donor restrictions include those net assets whose use is subject to donor-imposed restrictions. Donor restrictions may be for a specified time or purpose limitation or the donor may specify that the corpus of their original and certain subsequent gifts be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Income tax status: The Society and the Endowment Fund are both exempt from the payment of income taxes on their exempt activities under Section 501(c)(3) of the Internal Revenue Code (IRC). The Society is classified as other than a private foundation within the meaning of Section 509(a)(1) of the IRC. The Endowment Fund is classified as a supporting organization within the meaning of Section 509(a)(3) of the IRC.

Cash and cash equivalents: For financial statement purposes, the Society considers demand deposits and money market funds not held in the investment portfolio to be cash and cash equivalents.

Investments: Investments with readily determinable fair values are reflected at fair value. To adjust the carrying value of these investments, the change in fair value is charged or credited to investment income.

Financial risk: The Society maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Society.

The Society invests in funds in a professionally managed portfolio of mutual funds. Such investments are exposed to market and credit risks and may be subject to fluctuations in fair value. As a result, the investment balances reported in the accompanying statements may not be reflective of the portfolio's value during subsequent periods.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Promises to give: Promises to give include unconditional promises to give from donors for 1) the Society's capital campaigns and 2) for other contributions from donors. Promises to give related to the capital campaigns are expected to be collected within one to five years and have been recorded a net present value using discount rates of 3.25% and 5.0% as of August 31, 2020 and 2019, respectively. Promises to give related to other contributions from donors are expected to be collected within one year and have been recorded at net realizable value.

Management periodically reviews the status of all promises to give for collectability. Each promise to give is assessed based on management's knowledge of and relationship with the donor and the payment history of each donor. As a result of these reviews, promises to give deemed to be uncollectible are charged either to bad debt expense (within activities without donor restriction) or to bad debt loss (within activities with donor restrictions) and an allowance is recorded. Bad debt expense totaled \$11,086 and \$963 for the years ended August 31, 2020 and 2019, respectively. Bad debt loss totaled \$2,500,000 and \$0 for the years ended August 31, 2020 and 2019, respectively.

Direct pre-production expenses: Direct pre-production expenses include deferred costs related to specific seasons or productions. Deferred costs are capitalized and expensed during the related season or during the period in which a specific production is performed.

Property and equipment: Acquisitions of property and equipment greater than \$1,000 with a useful life of more than 3 years are recorded at cost and depreciated or amortized using the straight-line method over the estimated useful lives. Building, building improvements and leasehold improvements are depreciated or amortized using the straight-line method over 10 to 30 years. Production and audio equipment is depreciated using the straight-line method over 3 to 20 years. Furniture and office equipment and computer equipment and website are depreciated using the straight-line method over 3 to 5 years. Vehicles are depreciated using the straight-line method over 5 years. Capital projects in process and art are not depreciated.

Leasehold improvements include the Society's renovations of the theatre and museum located within the building owned by the U.S. Department of the Interior, National Park Service (NPS). Leasehold improvements also include the Atlantic Lobby, which allows access, including handicap access, to the theatre. Leasehold improvements are amortized over the estimated useful lives of the assets, which may be longer than the remaining terms of the underlying agreements because management believes that, in all likelihood, the underlying agreements will be extended past their current termination dates.

Valuation of long-lived assets: Long-lived property, such as real estate, that suffers a permanent impairment will be written down to fair value and an impairment loss equal to the difference between the property's carrying amount and fair value would be included as a reduction in the change in net assets from operations.

Revenue: Revenue is derived from exchange transactions with customers.

Production revenue includes ticket sales, which are recognized as revenue in the period when the related performances occur. Tickets sold in advance of a performance are recorded in the liability for advance ticket sales.

Other revenue includes concessions income, restoration fees, royalty income and education fees.

Day visits and audio tours revenue includes ticket sales related to museum visits and audio tours.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Support: Support is related to contributions from donors, which are recognized in the statements of activities when donors make unconditional promises to give or when gifts of cash or other assets are received. Contributions are classified as support with donor restrictions or without donor restrictions depending upon the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor, or that have an implied time restriction, are reported as increases in net assets with donor restrictions. Within net assets with donor restrictions, amounts are reclassified to net assets without donor restrictions upon satisfaction of the donor's purpose restriction or when time restrictions expire.

Public support contributions include, but are not limited to, multi-year promises to give related to the Society's capital campaigns.

Gala contributions relate to the Society's annual fundraising event. Gala contributions relate to the Society's annual fundraising event and it is disclosed to donors that benefits, including annual gala tickets, are non-transferrable to future years.

Government grants include various funding agreements with the District of Columbia (DC) government and the federal government. Grants from the DC government primarily related to agreements with the DC Commission on the Arts and Humanities. Grants from the federal government are provided by various U.S. agencies, including the National Park Service, and federal expenditures were less than \$750,000 for each of the years ended August 31, 2020 and 2019. Government grants are considered to be conditional contributions. Therefore, the recognition of government grant revenue occurs when barriers imposed under the grant agreements have been met.

In-kind contributions primarily consisted of contributed (donated) services which are recognized in the statements of activities as contributions and expenses in equal amounts in accordance with U.S. GAAP when the services: (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Society. In-kind contributions have been recorded using the estimated fair market value of the services provided and primarily consisted of pro bono legal services related to the property located at 512 10th Street.

The Society has permission from the NPS to use the historic theatre rent-free. In exchange for use of the facilities, NPS expects the Society will operate according to its mission to provide visitors with the highest quality of artistic product and its broadest dissemination under public sponsorship. The Society has not recorded an in-kind contribution for use of facilities due to the nature of the services it provides on behalf of NPS in exchange for rent-free use of the facilities.

Concentration of contributions: One donor provided 35% of the Society's public support contributions during the year ended August 31, 2020. The gift was an unconditional promise to give related to the capital campaign which will be paid over five years.

Related-party transactions: Members of the Society's Board of Trustees provided contributions to the Society of approximately \$511,000 and \$645,000 during the years ended August 31, 2020 and 2019, respectively.

Advertising costs: Advertising costs are expensed when incurred, except the costs of advertising for future productions. Advertising costs for future productions are recorded as prepaid expenses and expensed over the period of the production to which the advertising costs relate. Advertising expense totaled \$475,535 and \$622,878 during the years ended August 31, 2020 and 2019, respectively.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Allocation of expenses: The costs of providing the various program and supporting activities of the Society have been summarized on a functional basis in the accompanying statements of functional expenses. Costs related to a specific functional activity are charged directly to that activity. However, other indirect costs are allocated among the program and supporting services benefited based on management's best estimates. In particular, salaries and benefits along with other shared costs, such as occupancy, insurance, and depreciation and amortization are allocated based on estimated employee effort.

Reclassifications: Certain 2019 amounts have been reclassified to conform to the 2020 presentation. Investment fees totaling \$21,951 were reclassified from artistic, production and technical expenses and from general and administrative expenses to investment income with no effect on the changes in net assets. In addition, the prior year cost allocations related to occupancy, insurance and depreciation and amortization were changed to conform to the current year presentation with no effect on the changes in net assets.

Recent accounting pronouncements adopted: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The Society adopted the contributions received portion of the new standard effective for the year ended August 31, 2020, using the modified prospective method. The Society will adopt the contributions made portion of the new standard when it is required during the year ending August 31, 2021. Based on management's review of its contributions received, the timing of the amount of contributions recognized previously is consistent with how contributions are recognized under this new standard. Therefore, the adoption of this standard had no impact on the financial statements but the standard does require additional disclosures related to conditional contributions when they are present.

Upcoming accounting pronouncements: FASB ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) requires that the Society recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. ASU 2014-09 replaces most existing revenue recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts from customers. The Society has elected to defer adoption of the standard, as allowed by FASB, until the year ending August 31, 2021. Management is currently analyzing the effects of the standard on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Society's year ending August 31, 2023. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Society anticipates adopting the new standard during the year ending August 31, 2023, and is currently evaluating the impact of the adoption of the new standard on the financial statements.

Subsequent events: Subsequent events have been evaluated through December 4, 2020, which is the date the financial statements were available to be issued.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 2. Investments

The Society follows the accounting standards topic regarding fair value measurements, which establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements. This standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1: Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2: Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3: Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Investments presented at fair value using Level 1 inputs include various types of mutual funds, which were valued based on quoted prices for identical assets in active markets. Management believes the estimated fair values of investments to be a reasonable approximation of their exit price.

Investments recorded at cost include cash and cash equivalents.

Investments consisted of the following as of August 31, 2020 and 2019:

	2020	2019
Investments, at fair value (Level 1):		
Mutual funds – fixed income		
Intermediate term bond	\$ 5,110,058	\$ 4,969,461
Ultra short-term bond	559,008	1,077,724
Mutual funds – equities		
U.S. Large cap	5,638,966	4,687,880
U.S. Small and mid cap	1,752,647	1,538,044
International large cap	2,453,080	2,156,516
Blended	143,117	117,734
Subtotal investments at fair value	<u>15,656,876</u>	<u>14,547,359</u>
Investments, at cost:		
Cash and cash equivalents	2,456	2,305
	<u>\$ 15,659,332</u>	<u>\$ 14,549,664</u>

Investments held to fund the deferred compensation plan described in Note 9 consisted entirely of the blended mutual fund. Investments held to fund deferred compensation totaled \$143,117 and \$117,734 as of August 31, 2020 and 2019, respectively.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

Investment income consisted of the following for the years ended August 31, 2020 and 2019:

	2020	2019
Net realized and unrealized gain	\$ 1,427,493	\$ 215,194
Interest and dividends	379,576	400,650
Investment fees	(20,000)	(21,951)
	<u>\$ 1,787,069</u>	<u>\$ 593,893</u>

Note 3. Promises to Give

Unconditional: Unconditional promises to give consisted of the following at August 31, 2020 and 2019:

	2020	2019
Receivable in less than one year	\$ 4,427,163	\$ 976,580
Receivable in one to five years	12,036,630	1,802,655
	<u>16,463,793</u>	<u>2,779,235</u>
Less allowance for doubtful promises to give	(2,500,000)	-
Less discount to present value	(828,519)	(159,651)
	<u>\$ 13,135,274</u>	<u>\$ 2,619,584</u>

Conditional: The Society also has conditional promises to give primarily from government funding sources. Future payments are contingent upon the Society carrying out certain activities, which will meet the donor-imposed barriers stipulated by the various government grant agreements. Conditional promises to give from government funding sources totaled \$172,304 as of August 31, 2020.

Note 4. Liquidity and Availability of Resources

The Society manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining a level of reserves to provide reasonable assurance that long-term obligations will be discharged. The Society's investment policy provide guidelines for management to follow in managing liquidity and reserves.

The Society's Board of Trustees has approved a motion to spend the board-designated net assets during the year ending August 31, 2021. Therefore, the Board-designated net assets are considered available for general expenditures within one year as of August 31, 2020.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 4. Liquidity and Availability of Resources (Continued)

Financial assets available for general expenditure within one year consisted of the following as of August 31, 2020 and 2019:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 4,992,702	\$ 3,213,972
Investments	15,659,332	14,549,664
Accounts receivable	43,806	32,730
Promises to give, net		
Current capital campaign	12,735,596	2,294,332
Previous capital campaign	-	45,000
Other promises to give	399,678	280,252
Subtotal financial assets	<u>33,831,114</u>	<u>20,415,950</u>
Less amounts not available for general expenditures within one year:		
Investments held to fund deferred compensation	(143,117)	(117,734)
Board-designated net assets	-	(467,632)
Net assets with donor restrictions	<u>(30,037,525)</u>	<u>(15,001,170)</u>
	<u>\$ 3,650,472</u>	<u>\$ 4,829,414</u>

Line of credit: The Society had a \$1,200,000, revolving line of credit with Bank of America that was secured by unencumbered assets held by the same bank. The line of credit was scheduled to terminate on August 31, 2020. The outstanding balance due on the line of credit totaled \$0 at August 31, 2020 and 2019.

The Society also had a stand by letter of credit totaling \$218,000 with Bank of America in favor of the Actors Equity Association, which is the labor union representing American actors and stage managers in theatre. In the event the letter of credit is used in the future, Bank of America would pay the Actors Equity Association using the line of credit and the Society would record a line of credit liability of \$218,000 at that point in time.

Effective on August 31, 2020, the line of credit with Bank of America was amended so that the borrowing limit was reduced to \$218,000 so as to cover the letter of credit and the termination date was extended to November 30, 2020. During October 2020, a new line of credit with a maximum borrowing limit of \$1,200,000 was obtained with a different bank (see Note 12).

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 5. Property and Equipment

Property and equipment consisted of the following as of August 31, 2020 and 2019:

	2020	2019
Building and improvements (514 10th Street)	\$ 26,311,139	\$ 26,311,139
Building (512 10th Street)	8,877,087	8,877,087
Capital projects in progress	3,025,321	1,200,947
Leasehold improvements	12,865,615	12,865,615
Production and audio equipment	1,639,236	1,390,102
Computer equipment and website	1,150,639	1,102,047
Furniture and office equipment	575,881	575,881
Vehicle	26,018	26,018
Art	11,000	11,000
	<u>54,481,936</u>	<u>52,359,836</u>
Less accumulated depreciation and amortization	15,054,025	13,594,024
	<u>\$ 39,427,911</u>	<u>\$ 38,765,812</u>

Note 6. Debt Obligations

Note payable: On September 6, 2018, the Society signed a note payable with Bank of America for proceeds of \$8,750,000 to purchase the property located at 512 10th Street. The loan was secured by a first deed of trust on the property located at 512 10th Street. The note has a variable interest rate and requires monthly interest only payments starting October 1, 2018 through the maturity date of August 31, 2020. However, on September 9, 2020, the note payable was amended to extend the maturity date to November 30, 2020.

The note payable includes financial and non-financial covenants. The financial covenant requires a debt service coverage ratio of at least 1.20 to 1.00 as of the last day of each fiscal year. While the Society was not in compliance with this financial covenant as of August 31, 2020, Bank of America reviewed the calculation of the covenant provided by management in conjunction with the September 2020 amendment. The non-financial covenant requires that audited financial statements be presented to the bank within 120 days after fiscal year end (December 31). The Society was in compliance with the non-financial covenant as of August 31, 2020.

Forgivable loan: In May 2020, the Society obtained a loan totaling \$1,285,500, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act of March 27, 2020. The loan matures on May 4, 2022 and bears interest at a rate of 1% per annum. Proceeds from the loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities and interest on other debt obligations incurred before February 15, 2020.

The loan and related accrued interest are forgivable after 24 weeks if the Society uses the loan proceeds for eligible purposes. The unforgiven portion of the PPP loan is payable over two years, with a deferral of payments for the first six months. The note payable may be prepaid by the Society at any time prior to maturity with no prepayment penalties. The Society has chosen to account for the loan in accordance with ASC 470 and will record a gain on loan forgiveness in the period when official notification of forgiveness is received. The Society intends to use the entire proceeds of the loan for qualifying expenses as described in the CARES Act.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 7. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of August 31, 2020 and 2019:

	2020	2019
Capital campaign	\$ 17,856,395	\$ 3,511,524
Endowment available for appropriation	6,017,344	5,500,511
Endowment held in perpetuity	5,350,164	5,350,164
Time restrictions	339,651	240,000
Productions and programming	325,000	250,000
Digital projects	148,971	148,971
	<u>\$ 30,037,525</u>	<u>\$ 15,001,170</u>

Capital campaign contributions received in excess of capital campaign expenses are to be used at the discretion of the Society's Board of Trustees. The excess capital campaign contributions remain in net assets with donor restrictions until the excess funds are spent after approval from the Board of Trustees.

Net assets released from restrictions consisted of the following for the years ended August 31, 2020 and 2019:

	2020	2019
Endowment earnings appropriated for expenditures	\$ 716,406	\$ 700,016
Productions and programming	250,000	250,000
Fundraising and gala	220,000	80,000
	<u>\$ 1,186,406</u>	<u>\$ 1,030,016</u>

Note 8. Endowment Fund

The Endowment Fund was established to receive restricted contributions from donors who required that amounts donated be held in perpetuity with the principal invested so that the income may be used for unrestricted operating activities. As required by U.S. 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.

The Society has interpreted the relevant 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 Consolidated Financial Statements

Note 8. Endowment Fund (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 approved by the Board of Trustees. Amounts appropriated for expenditures totaled \$716,406 and \$700,016 during the years ended August 31, 2020 and 2019, respectively.

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. However, there were no such deficiencies as of August 31, 2020 or 2019.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 8. Endowment Fund (Continued)

Changes in the Endowment Fund consisted of the following as of and for the year ended August 31, 2020:

	Available for Appropriation	Held in Perpetuity	Total
Endowment Fund, August 31, 2019	\$ 5,500,511	\$ 5,350,164	\$ 10,850,675
Investment income:			
Net realized and unrealized gain	1,005,368	-	1,005,368
Interest and dividends	247,871	-	247,871
Investment fees	(20,000)	-	(20,000)
Total investment income	1,233,239	-	1,233,239
Amounts appropriated for expenditures	(716,406)	-	(716,406)
Changes in net assets	516,833	-	516,833
Endowment Fund, August 31, 2020	\$ 6,017,344	\$ 5,350,164	\$ 11,367,508

Changes in the Endowment Fund consisted of the following as of and for the year ended August 31, 2019:

	Available for Appropriation	Held in Perpetuity	Total
Endowment Fund, August 31, 2018	\$ 5,850,236	\$ 5,350,164	\$ 11,200,400
Investment income:			
Net realized and unrealized gain	20,243	-	20,243
Interest and dividends	350,048	-	350,048
Investment fees	(20,000)	-	(20,000)
Total investment income	350,291	-	350,291
Amounts appropriated for expenditures	(700,016)	-	(700,016)
Changes in net assets	(349,725)	-	(349,725)
Endowment Fund, August 31, 2019	\$ 5,500,511	\$ 5,350,164	\$ 10,850,675

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 9. Retirement Plans

Defined contribution plan: The Society sponsors a defined contribution 401(k) retirement plan available to all employees meeting certain eligibility requirements as defined by the plan document. The plan document was amended and restated on January 1, 2020. The current version of the plan provides that the Society will make safe harbor matching contributions equal to 100% of participant salary deferrals that do not exceed 3% plus 50% of participant salary deferrals between 3% and 5%. The Society may also make additional discretionary contributions. The Society's contributions to the plan totaled \$149,776 and \$226,467 during the years ended August 31, 2020 and 2019, respectively

Union retirement plans: The Society contributed to other retirement plans on behalf of union members during the years ended August 31, 2020 and 2019. The Society's contributions related to these other retirement plans totaled \$327,517 and \$380,589, for the years ended August 31, 2020 and 2019, respectively.

Deferred compensation plan: The Society has a deferred compensation plan for a key employee. The plan was established in accordance with Section 457(f) of the IRC. The plan is funded by investments held to fund deferred compensation, which are described in Note 2. The liability related to the deferred compensation plan is included in accounts payable in the accompanying statements of financial position. The deferred compensation asset and related liability totaled \$143,117 and \$117,734 as of August 31, 2020 and 2019, respectively.

Note 10. Commitments and Contingencies

Operating lease: The Society has a long-term partnership agreement with the U.S. Department of the Interior, NPS allowing the Society use of the historic structure for theatrical productions and educational programs. The Society has an operating lease for lobby space that expires December 31, 2026 (during the year ending August 31, 2027). The lease includes a 2.00% escalation per year.

Rent expense, which includes the rental payments plus pass-through property taxes and other incidental expenses, totaled \$452,787 and \$446,855 for the years ended August 31, 2020 and 2019, respectively.

Future minimum cash basis lease payments are as follows:

Years ending August 31:	
2021	\$ 355,449
2022	362,558
2023	369,809
2024	377,205
2025	384,749
2026-2027	524,119
	<u>\$ 2,373,889</u>

Employment agreement: The Society has an employment agreement with its Director. Under the terms of the agreement, should the Society terminate his employment without cause, the Society would be obligated to pay severance in accordance with the terms of the agreement.

Ford's Theatre Society

Notes to Consolidated Financial Statements

Note 10. Commitments and Contingencies (Continued)

Government grants: The Society receives funding in accordance with several DC government and federal government grants, which are subject to financial and compliance examinations by federal or state agencies or their representatives. Therefore, a contingent liability may exist for potential questioned costs that would result from such examinations. However, management does not anticipate significant adjustments as a result of such examinations.

Note 11. COVID-19

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a Public Health Emergency of International Concern and, on March 11, 2020, declared it to be a pandemic. COVID-19 has had an adverse impact on global economies and financial markets. The ultimate financial and operational impacts of this pandemic on the Society's future funding have not yet been fully determined.

It is unknown how long the adverse conditions associated with COVID-19 will last and what the complete financial effect will be to the Society. Quarantines, restrictions on gatherings, or other disruptions to the Society's operations, may adversely impact the Society's revenues, ability to provide its programming and services and operating results. The Society's operations have been negatively impacted by the regional and global outbreak of COVID-19. Although relationships with donors remain strong, there may be an adverse effect on operating revenue with limited in-person public programming available to audiences. The Society has postponed one production to a future season and closed the historic site to visitation. During the year ending August 31, 2021, two more productions have been canceled. In order to continue fulfilling the Society's mission, many education programs have been transitioned to online or remote learning experiences. Additionally new digital programming, which includes "Cabinet Conversations" and virtual play readings, has been launched to continue audience and donor engagement. The Society has anticipated a continued loss of revenue and, as a result, has reduced operating costs and programming expenses in almost all areas. The Society has available reserves and a line of credit to provide further insulation to cash shortages created by the pandemic.

A full picture of the final impact on the Society's operations is not yet known. The extent to which the COVID-19 pandemic impacts the Society's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and actions necessary to contain it.

Note 12. Subsequent Events

Effective October 23, 2020, the Society obtained a new line of credit with a maximum borrowing limit of \$1.2 million from Capital Bank of Maryland.

Effective October 23, 2020, the Society paid off the \$8,750,000 note payable to Bank of America with loan proceeds of \$8,750,000 from Capital Bank of Maryland. The refinanced note payable has a maturity date of October 2023.