

**THEATRE COMMUNICATIONS GROUP, INC.**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2017**

**THEATRE COMMUNICATIONS GROUP, INC.**

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## **Independent Auditor's Report**

**Board of Directors  
Theatre Communications Group, Inc.**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Theatre Communications Group, Inc., which comprise the balance sheet as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Theatre Communications Group, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Theatre Communications Group, Inc.'s June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Loeb & Troper LLP*

November 7, 2017

## THEATRE COMMUNICATIONS GROUP, INC.

## BALANCE SHEET

JUNE 30, 2017

(With Summarized Financial Information for June 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 54,143	\$ 532,905
Investments (Note 2)	5,543,982	7,449,929
Accounts receivable - current	483,813	355,150
Grants and contributions receivable - net; current	2,024,237	2,527,062
Prepaid expenses and other receivables	93,859	88,618
Inventory	875,632	904,372
Website development	758,990	317,412
Fixed assets - net (Note 4)	<u>22,714</u>	<u>29,007</u>
Total assets	<u>\$ 9,857,370</u>	<u>\$ 12,204,455</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 860,040	\$ 809,944
Deferred subscriptions and registration fees	1,670,344	1,721,237
Note payable (Note 10)	85,363	
Deferred lease payments	139,114	127,712
Deferred compensation payable (Note 6)	<u>27,156</u>	<u>71,238</u>
Total liabilities	<u>2,782,017</u>	<u>2,730,131</u>
Net assets (Exhibit B)		
Unrestricted	1,638,378	1,417,998
Temporarily restricted (Note 5)	4,285,939	6,905,290
Permanently restricted (Note 9)	<u>1,151,036</u>	<u>1,151,036</u>
Total net assets	<u>7,075,353</u>	<u>9,474,324</u>
Total liabilities and net assets	<u>\$ 9,857,370</u>	<u>\$ 12,204,455</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**THEATRE COMMUNICATIONS GROUP, INC.**

**EXHIBIT B**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2017**

**(With Summarized Financial Information  
for the Year Ended June 30, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Revenues, gains and other support					
Grants	\$ 135,000			\$ 135,000	\$ 179,300
Foundation contributions	347,016	\$ 723,484		1,070,500	2,990,500
Corporation contributions	141,400			141,400	119,300
Individual contributions	409,623	17,179		426,802	334,187
In-kind contributions					13,500
Special event	231,307			231,307	161,608
Book sales	1,886,488			1,886,488	1,700,151
Periodical sales	1,096,063			1,096,063	1,160,831
Individual membership	293,697			293,697	290,271
Affiliates' membership	154,550			154,550	117,800
Theatre registration fees	1,709,099			1,709,099	1,657,077
Conferences	476,801			476,801	601,090
Investment income (Note 2)	183,230	130,339		313,569	114,340
Other revenues	35,024			35,024	38,622
Net assets released from restrictions (Note 5)	3,490,353	(3,490,353)			
<b>Total revenues, gains and other support</b>	<b>10,589,651</b>	<b>(2,619,351)</b>		<b>7,970,300</b>	<b>9,478,577</b>
Expenses					
Program services - theatre field services	8,941,374			8,941,374	7,927,041
Administration	595,108			595,108	551,615
Development - fundraising	780,496			780,496	687,249
Direct costs of special event	52,293			52,293	56,556
<b>Total expenses (Note 11)</b>	<b>10,369,271</b>			<b>10,369,271</b>	<b>9,222,461</b>
Change in net assets (Exhibit C)	220,380	(2,619,351)		(2,398,971)	256,116
Net assets - beginning of year	1,417,998	6,905,290	\$ 1,151,036	9,474,324	9,218,208
Net assets - end of year (Exhibit A)	\$ 1,638,378	\$ 4,285,939	\$ 1,151,036	\$ 7,075,353	\$ 9,474,324

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## THEATRE COMMUNICATIONS GROUP, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ (2,398,971)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation and amortization	14,523
Amortization of website development costs	39,947
Net gain on investments	(190,779)
Decrease (increase) in assets	
Accounts receivable	(128,663)
Accounts, grants and contributions receivable	502,825
Prepaid expenses and other receivables	(5,241)
Inventory of books	28,740
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	50,096
Deferred subscriptions and registration fees	(50,893)
Deferred lease payments	11,402
Deferred compensation payable	(44,082)
Net cash provided (used) by operating activities	<u>(2,171,096)</u>
Cash flows from investing activities	
Purchase of investments	(2,959,483)
Proceeds from sale of investments	5,056,209
Website development costs	(481,525)
Purchases of fixed assets	(8,230)
Net cash provided by investing activities	<u>1,606,971</u>
Cash flows from financing activities	
Proceeds from note payable	944,302
Payments of note payable	(858,939)
Net cash provided by financing activities	<u>85,363</u>
Net change in cash and cash equivalents	(478,762)
Cash and cash equivalents - beginning of year	<u>532,905</u>
Cash and cash equivalents - end of year	<u>\$ 54,143</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 14,245</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**THEATRE COMMUNICATIONS GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 1 - ORGANIZATION**

Theatre Communications Group, Inc. ("TCG"), the national organization for the American theatre, was organized in 1961. Its mission is to strengthen, nurture and promote the professional not-for-profit American theatre. Through a wide array of programs, publications and services, TCG seeks to increase the organizational efficiency of its member theatres, cultivate and celebrate the artistic talent and achievements of the field, and promote greater public understanding of and appreciation for the theatre field. TCG's primary sources of revenues are support from contributions, book and periodical sales and theatre registration fees.

TCG is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization which is not a private foundation under Section 509(a).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of accounting* - The financial statements are prepared on the accrual basis of accounting.

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and cash equivalents* - Cash and cash equivalents include investments in highly liquid instruments with maturities, when acquired, of three months or less.

*Investments* - Investments are recorded at fair value. TCG invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in TCG's financial statements.

*Accounts receivable* - Accounts receivable for dues are recorded at the beginning of the fiscal year, and receivables that result from sales are recorded at the time of the sale.

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**THEATRE COMMUNICATIONS GROUP, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Grants and contributions receivable*** - Unconditional promises to give that are expected to be collected within one year are recorded at fair value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

***Allowance for doubtful accounts*** - TCG determines whether an allowance for uncollectible accounts should be provided for receivables. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent receipts and historical information. Receivables are charged to bad debt expense when they are deemed to be uncollectible based upon a periodic review of the accounts by management. Interest is not accrued or recorded on outstanding receivables. As of June 30, 2017, TCG has recorded an allowance for doubtful accounts receivable in the amount of \$15,000 for grants and contributions receivable. No allowance for doubtful accounts was deemed necessary as of June 30, 2017 for accounts receivables.

***Inventory*** - Inventory consists of books and is recorded at the lower of cost or market value on the first-in, first-out basis. Inventory is not maintained for periodicals.

***Website development*** - TCG is in the process of enhancing and migrating the company website and customer service database systems to better service its members. Costs related to the planning stage of website development projects as well as ongoing website operating and support costs are expensed as incurred. Costs of developing the software to operate the website are capitalized. Once completed, the project will be amortized over its estimated useful life of ten years.

***Fixed assets*** - Fixed assets are stated at cost. Items with a cost of \$1,000 or more and having a useful life greater than one year are capitalized. Furniture and equipment are depreciated on the straight-line method over their estimated useful lives varying from three to ten years. Leasehold improvements are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the improvement.

***Deferred subscriptions and registration fees*** - Deferred subscriptions and registration fees represent funds received in advance which are attributable to future periods.

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**THEATRE COMMUNICATIONS GROUP, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Revenue recognition* - Revenues are recognized as follows:

- **Membership dues** - At the beginning of the fiscal year.
- **Theatre registration fees and conferences** - At the time that the event occurs.
- **Subscription revenues** - Subscription revenues, included in periodical sales, are recognized over the term of the subscription period.
- **Book and periodical sales** - Recognized at the time of the sale.

*Grants and contributions* - TCG records revenue and receivables for cost reimbursement grants from contracting agencies based upon claims for expense reimbursements and program utilization at contracted rates. Unconditional grants and contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*In-kind contributions* - In-kind contributions are recorded at fair value at the date of donation and consist primarily of professional fees.

*Deferred lease payments/rent expense* - Rent is recognized on the straight-line basis over the term of the lease. Deferred rent is recorded for the difference between the fixed payment and the rent expense.

*Net assets* - Unrestricted net assets include funds having no restriction as to use or purpose imposed by the donors. Temporarily restricted net assets are those whose use by the organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those net assets whose principal may not be expended. The donor may or may not restrict the use of investment income.

*Functional allocation of expenses* - The costs of providing TCG's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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**THEATRE COMMUNICATIONS GROUP, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Summarized financial information for 2016* - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

***Fair Value Measurements***

*Fair Value Measurements* establishes a framework for measuring fair value. The 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 are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that TCG 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;
- 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. The asset 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.

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 at June 30, 2017 as compared to June 30, 2016.

***Corporate bonds*** - Valued at the closing price reported for comparable securities of issuers with similar yields and similar credit ratings.

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## THEATRE COMMUNICATIONS GROUP, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fair Value Measurements (continued)*

*Equities* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds* - Valued at the net asset value (NAV) of shares held by TCG 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 TCG 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.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Corporate bonds		\$ 3,447,450	\$ 3,447,450
Equities			
Domestic	\$ 1,167,888		1,167,888
International	125,373		125,373
Mutual funds			
Domestic	466,352		466,352
International	<u>48,133</u>		<u>48,133</u>
Total investments based upon the fair value hierarchy	<u>\$ 1,807,746</u>	<u>\$ 3,447,450</u>	5,255,196
Money market funds			<u>288,786</u>
Total investments			<u>\$ 5,543,982</u>

Investment income (loss) consists of:

Interest and dividends	\$ 166,141
Net realized and unrealized loss on investments	190,779
Investment fees	<u>(43,351)</u>
Total investment income	<u>\$ 313,569</u>

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**THEATRE COMMUNICATIONS GROUP, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Uncertainty in income taxes* - TCG has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2014 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through November 7, 2017, which is the date the financial statements were available to be issued.

**NOTE 3 - DESCRIPTION OF FUNDS/PROGRAMS**

*Program reserve fund* - In 1979, the Board of Directors established this Board-designated working capital reserve fund. Starting with fiscal year 2009, the Board decided to permit a forward-funded, three-year, six-percent, rolling-average spending rate on investments to be used for operating purposes.

*Endowment fund* - During 1992, the Ford Foundation awarded a grant of \$1,000,000 to establish an endowment fund. In addition, other endowment contributions totaling \$151,036 have been received in subsequent years. The principal is restricted, but investment income may be used to further the goals of TCG. In fiscal year 2009, the Board approved its current policy of a forward-funded, five-year, six-percent, rolling-average spending rate on its investment drawdown, to be transferred to the operating fund.

*The Leadership University program* - This program was designed by TCG and is funded by The Andrew W. Mellon Foundation. The overall intent of this program is to strengthen the field by developing the individuals who are the core and future of theatre. This new program provides support in two initiatives: One-on-One for early-career leaders and Continuing Ed for mid-career and veteran professionals.

*Audience Revolution program* - This program is a multi-year program designed by TCG and funded by the Doris Duke Charitable Foundation to study, promote and support successful audience engagement models across the country. Building off of the success of TCG's twelve-year New Generations: Future Audiences program, Audience Revolution will include four components unfolding over three years to achieve these goals: research and assessment, a convening, grant-making and widespread dissemination of audience engagement models that work.

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**THEATRE COMMUNICATIONS GROUP, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017****NOTE 3 - DESCRIPTION OF FUNDS/PROGRAMS (continued)**

***The Global Connections program*** - This program was designed by TCG and is funded by The Andrew W. Mellon Foundation. It is made up of two initiatives: On the Road will foster new relationships with international colleagues that will inspire each other's work and aesthetics by creating opportunities for cultural exchange. In the Lab will further pre-existing international collaborations by supporting residencies that either advance the development of a piece or explore elements leading up to a full production. To date, many U.S.-based theatre organizations and individual artists have made substantial strides in learning and developing projects with colleagues abroad.

***Resident Actor Fellowship program*** - This program was designed by TCG and is funded by the Fox Foundation. The fellowship is for actors that support their artistic and professional growth in collaboration with a TCG Member theatre.

***Equity, Diversity & Inclusion Institute program*** - TCG's strategic plan includes a multi-year, six-point Equity, Diversity & Inclusion Initiative to transform the national theatre field into a more equitable, inclusive and diverse community. While these efforts are currently focused on racial and cultural diversity, TCG takes an intersectional approach to identity and equity that infuses all of our programming. The Initiative's six points are divided into the following two areas of focus, Establishing a Baseline and Action-Oriented Programming. All three points of Establishing a Baseline are funded through support from the Doris Duke Charitable Foundation.

TCG launched a national cohort of over 20 TCG Member Theatres, including TCG, to create and execute action plans around diversity and inclusion, kicking-off as a Pre-Conference at the 2013 National Conference. The Institute will continue to hold smaller training programs and convening on cultural awareness, managing diversity and activating change, with additional cohorts to launch in the near future. This intensive approach not only creates a climate within each individual theatre whereby institutional change is more likely to take hold, but it also adds significantly to the collective impact and national momentum of diversity and inclusion efforts already taking place. In 2017, TCG launched two new Institute cohorts with support from The Andrew W. Mellon Foundation.

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**THEATRE COMMUNICATIONS GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 4 - FIXED ASSETS**

	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net</u>
Leasehold improvements	\$ 330,726	\$ 330,726	
Furniture and equipment	<u>1,615,254</u>	<u>1,592,540</u>	\$ <u>22,714</u>
	<u>\$ 1,945,980</u>	<u>\$ 1,923,266</u>	<u>\$ 22,714</u>

**NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

Alan Schneider Fund	\$ 28,454
Audience Revolution	1,864,261
Veterans Theatre Institute	46,808
Equity diversity and Inclusion Initiative	428,772
Fund for the American Theatre	16,179
Global Connections	381,561
Leadership University	864,435
National conference	13,484
Resident Actor Fellowships	630,985
Blue Star Theatres	10,000
Time restricted	<u>1,000</u>
	<u>\$ 4,285,939</u>

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**THEATRE COMMUNICATIONS GROUP, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017****NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS (continued)**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Audience Revolution	\$ 1,428,600
New Generations Program	386,697
Equity, Diversity and Inclusion Initiative	343,739
Innovation grants	2,003
Veterans Theatre Institute	52,804
Leadership University	578,216
Blue Star Theatres	10,000
Audience Engagement	100,000
Resident Actor Fellowships	264,583
Global Connections	53,821
Satisfaction of time restriction	235,000
Appropriation of endowment earnings	<u>34,890</u>
	<u>\$ 3,490,353</u>

**NOTE 6 - PENSION AND RETIREMENT PLANS**

TCG had established a defined contribution pension plan for employees who satisfy age and service requirements. TCG suspended contributions to the plan effective fiscal year 2010.

During 1981, in recognition of prior years' service, TCG entered into agreements with employees having more than six years of service. Currently, there is one former employee participating in this plan. The liability at June 30, 2017 was \$27,156 and is not secured or funded. The balance of \$27,156 is anticipated to be paid in February of 2018.

**NOTE 7 - LEASE COMMITMENT**

TCG leases its premises pursuant to a non-cancelable lease agreement expiring on November 30, 2022. Rent expense for the current year was \$449,057.

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**THEATRE COMMUNICATIONS GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 7 - LEASE COMMITMENT (continued)**

The required future base rent payments are as follows:

2017-2018	\$ 460,283
2018-2019	471,790
2019-2020	483,585
2020-2021	495,675
2021-2022	508,066
Thereafter	<u>213,868</u>
	<u>\$ 2,633,267</u>

**NOTE 8 - CONCENTRATIONS**

Financial instruments which potentially subject the organization to a concentration of credit risk are cash accounts with financial institutions in New York City in excess of FDIC insurance limits.

**NOTE 9 - ENDOWMENT FUNDS**

**General**

TCG's endowments consist of one individual donor-restricted endowment fund established to support activities of the organization. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Directors of TCG adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. TCG is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of up to 7% of the average of its previous five years' balance. As a result of this interpretation, TCG classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

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## THEATRE COMMUNICATIONS GROUP, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

## NOTE 9 - ENDOWMENT FUNDS (continued)

**Return Objectives, Strategies Employed and Spending Policy**

The objective of TCG is to maintain the principal endowment funds at the historical dollar value designated by the donor while generating investment income. The investment policy to achieve this objective is to invest in low-risk securities. Interest and dividends in relation to the endowment funds are recorded as temporarily restricted income and released from restriction when appropriated for the program for which the endowment fund was established. The Board of Directors adopted a 6% rolling-average spending rate.

**Funds with Deficiencies**

TCG does not have any funds with deficiencies.

**Endowment Net Asset Composition by Type of Fund as of June 30, 2017**

The endowment net asset composition of \$1,151,036 consists of the following:

Investment in perpetuity, the income from which is expendable to support activities of the organization	\$ <u>1,151,036</u>
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**Changes in Endowment Net Assets for the Year Ended June 30, 2017**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 1,151,036	\$ 1,151,036
Interest and dividends	\$ 34,890		34,890
Appropriation of endowment income for expenditure	<u>(34,890)</u>		<u>(34,890)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,151,036</u>	<u>\$ 1,151,036</u>

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**THEATRE COMMUNICATIONS GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 10 - NOTE PAYABLE**

TCG has a line-of-credit arrangement with a bank, secured by the value of the investment portfolio. The borrowing limit is based on a portion of TCG's investments. TCG is required to pay back, by the end of the fiscal year, all the borrowed funds except for \$250,000 of principal. The interest rate on this line is set at 3.5% per annum. Interest expense for the year ended June 30, 2017 was \$14,245. As of June 30, 2017, the outstanding balance was \$85,363. The balance at June 30, 2017 was paid in July 2017.

**NOTE 11 - FUNCTIONAL EXPENSES**

TCG has a wide array of programs, publications and services. Expenses related to providing these programs, publications and services are as follows:

Theatre field services*	\$ 8,941,374
Administration	595,108
Development - fundraising	780,496
Direct costs of special event	<u>52,293</u>
Total expenses per Exhibit B	10,369,271
Investment fees	<u>43,351</u>
	<u>\$ 10,412,622</u>

\* Includes costs of book and periodical sales of \$2,992,695.