

THEATRE COMMUNICATIONS GROUP, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019



LUTZ AND GARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Theatre Communications Group, Inc.

We have audited the accompanying financial statements of Theatre Communications Group, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2019, 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.

Lotz + Carr, LLP

New York, New York
November 11, 2019

THEATRE COMMUNICATIONS GROUP, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

Assets

Cash and cash equivalents (Notes 1c and 10)	\$ 765,569
Contributions receivable (Notes 1d and 4)	691,538
Accounts receivable (Note 1f)	391,237
Prepaid expenses	113,299
Inventory (Note 1g)	786,203
Investments (Notes 1e and 6)	4,940,621
Website development and software, at cost, net of accumulated depreciation (Note 1i)	599,203
Property and equipment, at cost, net of accumulated depreciation (Notes 1h and 7)	<u>17,517</u>

Total Assets\$8,305,187**Liabilities and Net Assets**

Liabilities	
Accounts payable and accrued expenses	\$ 489,490
Deferred subscriptions and membership fees (Note 1j)	1,629,817
Deferred rent (Note 1k)	127,959
Total Liabilities	<u>2,247,266</u>

Commitments (Notes 9 and 11)

Net Assets (Note 3)

Without Donor Restrictions	912,463
With Donor Restrictions	<u>5,145,458</u>
Total Net Assets	<u>6,057,921</u>

Total Liabilities and Net Assets\$8,305,187

See notes to financial statements.

THEATRE COMMUNICATIONS GROUP, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in Net Assets			
Revenue and Public Support			
Contributions (Note 10)			
Government	\$ 75,000	\$ 272,057	\$ 347,057
Foundation	186,000	1,171,709	1,357,709
Corporation	130,495	33,000	163,495
Individual	337,275	50,000	387,275
Gross benefit event income	255,396	-	255,396
Less: Direct benefit event expense	(53,235)	-	(53,235)
Conferences	413,080	-	413,080
Book sales	1,643,035	-	1,643,035
Periodical sales	915,162	-	915,162
Individual membership	326,252	-	326,252
Affiliates' membership	128,388	-	128,388
Theatre membership	1,777,618	-	1,777,618
Net investment income (Note 6)	57,857	291,968	349,825
Other income	24,924	-	24,924
	<u>6,217,247</u>	<u>1,818,734</u>	<u>8,035,981</u>
Appropriation of endowment funds pursuant to spending policy	<u>125,306</u>	<u>(125,306)</u>	<u>-</u>
Net assets released from restrictions			
Satisfaction of time and program restrictions	<u>2,262,648</u>	<u>(2,262,648)</u>	<u>-</u>
Total Revenue and Public Support	<u>8,605,201</u>	<u>(569,220)</u>	<u>8,035,981</u>
Expenses			
Program Services	<u>7,421,822</u>	<u>-</u>	<u>7,421,822</u>
Supporting Services			
Management and general	518,007	-	518,007
Fundraising	577,189	-	577,189
Total Supporting Services	<u>1,095,196</u>	<u>-</u>	<u>1,095,196</u>
Total Expenses	<u>8,517,018</u>	<u>-</u>	<u>8,517,018</u>
Increase (Decrease) in Net Assets	<u>88,183</u>	<u>(569,220)</u>	<u>(481,037)</u>
Net assets, beginning of year, as previously reported	1,654,192	4,884,766	6,538,958
Prior period adjustment (Note 12)	<u>(829,912)</u>	<u>829,912</u>	<u>-</u>
Net assets, beginning of year, as restated	<u>824,280</u>	<u>5,714,678</u>	<u>6,538,958</u>
Net Assets, End of Year	<u><u>\$ 912,463</u></u>	<u><u>\$ 5,145,458</u></u>	<u><u>\$6,057,921</u></u>

See notes to financial statements.

THEATRE COMMUNICATIONS GROUP, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Services				Supporting Services			Total Expenses
	Member Services	Artistic Programs	Publications	Total	Management and General	Fundraising	Total	
Salaries, payroll taxes and employee benefits	\$ 494,995	\$1,284,519	\$ 1,227,463	\$3,006,977	\$ 365,165	\$ 405,739	\$ 770,904	\$3,777,881
Awards and fellowships	29,790	392,738	73,872	496,400	-	-	-	496,400
Writer fees and royalties	64,186	166,565	159,166	389,917	-	-	-	389,917
Book seller fees	56,810	147,423	123,861	328,094	-	-	-	328,094
Occupancy	79,112	207,709	196,177	482,998	58,362	64,847	123,209	606,207
Consultant fees	73,995	295,056	183,488	552,539	12,864	13,333	26,197	578,736
Insurance	5,292	13,734	13,124	32,150	3,904	4,338	8,242	40,392
Repairs, maintenance and supplies	36,990	100,898	91,726	229,614	27,288	33,978	61,266	290,880
Administrative expenses	27,867	77,314	69,102	174,283	17,030	18,922	35,952	210,235
Travel, meeting expenses and per diems	102,735	505,840	254,758	863,333	2,319	2,319	4,638	867,971
Service and registration fees	36,689	120,093	90,979	247,761	-	-	-	247,761
Printing, typesetting and design fees	68,070	176,772	168,798	413,640	7,323	7,323	14,646	428,286
Postage and delivery	20,746	55,689	51,444	127,879	15,305	17,005	32,310	160,189
Advertising	1,101	2,856	2,729	6,686	-	-	-	6,686
Total expenses before depreciation	1,098,378	3,547,206	2,706,687	7,352,271	509,560	567,804	1,077,364	8,429,635
Depreciation and amortization	11,449	29,711	28,391	69,551	8,447	9,385	17,832	87,383
Total Expenses	<u>\$1,109,827</u>	<u>\$3,576,917</u>	<u>\$ 2,735,078</u>	<u>\$7,421,822</u>	<u>\$ 518,007</u>	<u>\$ 577,189</u>	<u>\$1,095,196</u>	<u>\$8,517,018</u>

See notes to financial statements.

THEATRE COMMUNICATIONS GROUP, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

Cash Flows From Operating Activities	
Decrease in net assets	\$ (481,037)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation and amortization	87,383
Realized gain on investments	(113,967)
Unrealized gain on investments	(133,284)
Decrease in:	
Contributions receivable	52,541
Accounts receivable	6,105
Prepaid expenses	30,094
Inventory	39,399
Decrease in:	
Accounts payable and accrued expenses	(408,531)
Deferred subscriptions and membership fees	(90,589)
Deferred rent	(11,331)
Net Cash Used By Operating Activities	<u>(1,023,217)</u>
Cash Flows From Investing Activities	
Purchase of property and equipment	(13,191)
Purchase of investments	(282,868)
Proceeds from sale of investments	1,636,637
Net Cash Provided By Investing Activities	<u>1,340,578</u>
Cash Flows From Financing Activities	
Proceeds from use of line of credit	650,000
Repayment on line of credit	(650,000)
Net Cash Provided (Used) By Financing Activities	<u>-</u>
Net increase in cash and cash equivalents	317,361
Cash and cash equivalents, beginning of year	<u>448,208</u>
Cash and Cash Equivalents, End of Year	<u>\$ 765,569</u>
Supplemental Disclosure	
Unrelated business income tax	\$ 16,352
Interest paid	<u>\$ 10,725</u>

See notes to financial statements.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

Theatre Communications Group, Inc. ("TCG" or the "Organization"), 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 subscriptions, and membership fees.

b - Financial Statement Presentation

The financial statements of TCG have been prepared in accordance with U.S. generally accepted accounting principles, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of TCG. These net assets may be used at the discretion of TCG's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of TCG or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity

c - Cash and Cash Equivalents

For purposes of the statement of cash flows, TCG considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, except for those held as part of its investment portfolio.

d - Contributions Receivable and Contributions

Contributions are recognized when the donor makes a promise to give to TCG, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance, when necessary, is based on prior years' experience and management's analysis of specific promises made.

THEATRE COMMUNICATIONS GROUP, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2019****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****e - Investments and Fair Value Measurements**

TCG reflects investments at fair value in the statement of financial position. Interest, dividends, and gains and losses on investments are reflected in the statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value, which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those the market participants would use in pricing the asset based on market data obtained from sources independent of TCG. Unobservable inputs reflect TCG's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances. Fair value measurements are categorized into three levels as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that TCG has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

f - Accounts Receivable

The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. 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.

THEATRE COMMUNICATIONS GROUP, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2019****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Inventory**

Inventory consists of books and is stated at the lower of cost or net realizable value, cost being determined on a first-in, first-out basis.

h - Property and Equipment

Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets.

i - Website Development

TCG developed its website and customer service database to better service its customer base. Costs of developing the software are capitalized and amortized over its useful life of ten years.

As of June 30, 2019, accumulated amortization is \$199,734.

j - Deferred Revenue

Revenue is deferred when received and recognized in the period that it is earned. Membership revenue is deferred when received and recognized in the fiscal year to which the membership relates. Subscription revenues are recognized on a straight-line basis over the term of the subscription period. Book and periodical sales are recognized at the time of the sale.

k - Deferred Rent

The aggregate of the total minimum lease payments is amortized on the straight-line basis over the term of the lease. The difference between the straight-line expense and amounts paid in accordance with the terms of its lease is recorded as deferred rent.

l - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

m - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services in reasonable ratios determined by management. A substantial portion of TCG's expenses are directly related to program activities. The expenses that are allocated include salaries and employee benefits, depreciation and amortization, occupancy and office expenses, all of which are allocated on the basis of an estimate of personnel time and effort.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1 - Organization and Summary of Significant Accounting Policies (continued)**n - Tax Status**

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

o - Subsequent Events

TCG has evaluated subsequent events through November 11, 2019, the date that the financial statements are considered available to be issued.

p - New Accounting Pronouncement

TCG adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”; (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

q - Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842)*.” The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statements of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. TCG is currently evaluating the impact of ASU 2016-02 on its financial statements.

Note 2 - Information Regarding Liquidity and Availability

TCG operates with a balanced budget for each fiscal year based on the revenues expected to be available to fund anticipated expenses. Annual revenue is comprised of a mix of contribution revenue earned during the current year, as well as program and membership revenue earned during the current year. TCG considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to general and administrative and fundraising activities undertaken to support those services.

Management monitors cash flow projections to determine liquidity needs and to ensure the ability to meet cash requirements.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 2 - Information Regarding Liquidity and Availability (continued)

TCG's financial net assets as of June 30, 2019 available within one year to meet cash needs for general expenditures are summarized as follows:

Financial Assets at Year End:	
Cash and cash equivalents	\$ 765,569
Contributions receivable	691,538
Accounts receivable	391,237
Investments	<u>4,940,621</u>
Total Financial Assets	6,788,965
Less: Amounts not Available to be Used within One Year:	
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(3,068,706)
Plus: Net assets with donor restrictions expected to be met in less than one year	1,726,297
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(2,076,752)
Plus: Amounts appropriated for use in one year	124,375
Net assets without donor restrictions - Program Reserve Fund	<u>(710,060)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$2,784,119</u>

In addition to these financial assets available within one year, TCG maintains a board designated Program Reserve Fund with a balance of \$710,060 as of June 30, 2019. These amounts could be made available at any time to meet cash needs for general expenditures at the discretion of the Board of Directors. TCG also has a \$1,000,000 line of credit with UBS.

Note 3 - Net Assetsa - Net Assets Without Donor Restrictions

Net assets without donor restrictions as of June 30, 2019 consist of the following:

Program reserve fund	\$710,060
Other	<u>202,403</u>
	<u>\$912,463</u>

Program Reserve Fund

The Board of Directors established this fund in 1979. Up to \$250,000 may be borrowed for use in operations to meet short-term cash flow needs. The Board may also approve other expenditures out of this fund.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 3 - Net Assets (continued)b - Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2019 consist of the following:

Subject to Expenditure for Specified Purpose:	
Audience Revolution	\$1,215,781
Equity, Diversity, and Inclusion Initiative	668,480
Willa Kim Costume Design Scholarships	475,000
Fox Resident Actor Fellowships	334,755
Communications and Publicity	90,000
Rising Leaders of Color	25,000
National Conference	15,000
Global Connections	68,727
Fund for the American Theatre	16,179
Alan Scheider Fund	14,155
Blue Star Theatres	10,000
Veterans Theatre Institute	3,103
	<u>2,936,180</u>
Subject to passage of time:	
Future periods after June 30, 2019	<u>132,526</u>
Endowments subject to spending policy and appropriation:	
Investment income above original gift amount:	
General operations	925,716
Investment in perpetuity:	
General operations	<u>1,151,036</u>
Total Endowments	<u>2,076,752</u>
Total Net Assets With Donor Restrictions	<u>\$5,145,458</u>

TCG's major programs are as follows:

Audience Revolution

This program is a multi-year program designed by TCG and funded by the Doris Duke Charitable Foundation to study, promote, and support audience engagement models across the country. Now in round three, this program focuses on audience engagement and community development strategies as they relate to theatre for young and multigenerational audiences. The program includes three components unfolding over three years: a national learning convenings; grant-making; and fieldwide dissemination of audience engagement strategies and models that work.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 3 - Net Assets (continued)b - Net Assets With Donor Restrictions (continued)*Equity, Diversity and Inclusion Institute*

This program is a multi-year 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. A significant focus of the EDI program is a series of national cohorts which are funded by the Andrew W. Mellon Foundation, along with additional regional partners including the Hearst Foundation.

Willa Kim Costume Design Scholarships

This program provides exceptionally talented costume designers who are enrolled in a university professional training program with the opportunity to supplement their fine arts training in drawing and painting.

Fox Resident Actor Fellowship

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.

Global Connections

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 fosters new relationships with international colleagues that will inspire each other's work and aesthetics by creating opportunities for cultural exchange; and In the Lab furthers 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.

TCG's endowment fund was established in 1992 with a \$1,000,000 grant from the Ford Foundation. Other endowment contributions totaling \$151,036 were received in subsequent years. The principal is restricted, but investment income may be used to further the goals of TCG. The Board of Directors has approved a spending policy to appropriate for expenditure an amount equal to 6% of the fair value of the fund, using a three-year rolling average.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 4 - Contributions Receivable

Contributions receivable at June 30, 2019 are due as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due within one year	\$188,993	\$350,747	\$539,740
Due in one to three years	<u>-</u>	<u>169,000</u>	<u>169,000</u>
	188,993	519,747	708,740
Less: Discount to present value	<u>-</u>	<u>(17,202)</u>	<u>(17,202)</u>
	<u>\$188,993</u>	<u>\$502,545</u>	<u>\$691,538</u>

Contributions receivable which are due after one year are discounted to net present value using a discount rate of 3% per annum. Uncollectible contributions receivable are expected to be insignificant.

Note 5 - Endowment Funds

TCG's endowment consists of the donor-restricted fund described in Note 3. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Consistent with New York State Not-for-profit Corporation law and the New York Prudent Management of Institutional Funds Act (NYPMIFA), TCG classifies as net assets with donor restrictions for investment in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the funds. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions for investment in perpetuity is classified as net assets subject to spending policy and appropriation until those amounts are appropriated for expenditure by TCG.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 5 - Endowment Funds (continued)

In accordance with NYPMIFA, TCG is required to consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of TCG and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of TCG;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on TCG, and
- (viii) the investment policy of TCG

As of June 30, 2019, the composition of TCG's endowment funds, by type of fund and net asset classifications, is summarized as follows:

	<u>Net Assets With Donor Restrictions</u>		
	<u>Accumulated Investment Income</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Donor-restricted endowment fund	<u>\$925,716</u>	<u>\$1,151,036</u>	<u>\$2,076,752</u>

Changes in TCG's endowment funds for the year ended June 30, 2019 are summarized as follows:

	<u>Net Assets With Donor Restrictions</u>		
	<u>Accumulated Investment Income</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$889,305	\$1,151,036	\$2,040,341
Investment income, net of investment fees	161,717	-	161,717
Appropriation of endowment assets for expenditure	<u>(125,306)</u>	<u>-</u>	<u>(125,306)</u>
Endowment Net Assets, End of Year	<u>\$925,716</u>	<u>\$1,151,036</u>	<u>\$2,076,752</u>

The Organization has adopted investment and spending policies for endowment assets to support its mission over the long term. It is intended that the fund grow through additional fundraising and through reinvestment of earnings not taken out for operations.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 5 - Endowment Funds (continued)

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy (the spending policy) of appropriating for expenditure each year 6% of the average fair value of the endowment fund over the prior three years through the year end preceding the year in which expenditure is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

Note 6 - Investments

Investments consist of the following at June 30, 2019:

	<u>Cost</u>	<u>Fair Value</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money balances	\$ 59,764	\$ 59,764	\$ 59,764	\$ -	\$ -
Money market funds	2,145,871	2,145,871	2,145,871	-	-
Equities:					
Common stock	712,900	945,112	945,112	-	-
Mutual funds	240,863	255,531	255,531	-	-
Fixed Income:					
Closed end and exchange traded funds	452,454	459,957	-	459,957	-
Corporate bonds and notes	677,086	670,291	-	670,291	-
Asset - backed	40,781	40,685	-	40,685	-
Mutual funds - other	<u>350,350</u>	<u>363,410</u>	<u>363,410</u>	<u>-</u>	<u>-</u>
	<u>\$4,680,069</u>	<u>\$4,940,621</u>	<u>\$3,769,688</u>	<u>\$1,170,933</u>	<u>\$ -</u>

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 6 - Investments (continued)

Investment income consists of the following for the year ending June 30, 2019:

Interest and dividend income	\$145,682
Net realized gains	113,967
Net unrealized gains	133,284
Management fees	<u>(43,108)</u>
Net Investment Income	<u>\$349,825</u>

Note 7 - Property and Equipment

Property and equipment consists of the following as of June 30, 2019:

	<u>Life</u>	<u>Amount</u>
Furniture and equipment	5 years	\$ 35,117
Leasehold improvements	6-10 years	<u>330,726</u>
		365,843
Less: Accumulated depreciation		<u>(348,326)</u>
		<u>\$ 17,517</u>

Note 8 - Note Payable

TCG maintains a line of credit with UBS Bank, secured by the value of its investment portfolio. At June 30, 2019, the available amount on the line was \$1,000,000. The applicable interest rate is determined at the time of borrowings, based on the amount borrowed. The interest rate on borrowings under this line of credit as of June 30, 2019 was 4.68%. There was no outstanding balance at June 30, 2019.

THEATRE COMMUNICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 9 - Commitment

TCG occupies office space under a lease which expires November 30, 2022. Approximate minimum rental payments under this are as follows:

<u>Year Ending June 30,</u>	
2020	\$483,585
2021	495,675
2022	508,066
Thereafter, through November 30, 2022	213,868

Rent expense for the year ended June 30, 2019 was \$483,121.

Note 10 - Concentrations

Approximately 36% of all contributions were received from one foundation and one estate in 2019 and approximately 52% of all contributions receivable at June 30, 2019 are due from three foundations.

The Organization maintains its cash and cash equivalent balances in two financial institutions located in New York, New York. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Note 11 - Pension and Retirement Plans

TCG has a defined contribution pension plan covering substantially all employees who satisfy age and service requirements. The Organization suspended contributions to the plan effective fiscal year 2010.

Note 12 - Prior Period Adjustment

An adjustment was made to correct opening net asset balances to reclassify accumulated endowment income not yet appropriated for expenditure as net assets with donor restrictions, which had previously been reflected as net assets without donor restrictions.