

THE PEOPLE'S LIGHT AND THEATRE COMPANY

**Consolidated Financial Statements
For the Years Ended August 31, 2016 and 2015
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

THE PEOPLE'S LIGHT AND THEATRE COMPANY
Consolidated Financial Statements
For the Years Ended August 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The People's Light and Theatre Company

We have audited the accompanying consolidated financial statements of The People's Light and Theatre Company and its subsidiary, which comprise the consolidated statements of financial position as of August 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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MITCHELL TITUS

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The People's Light and Theatre Company and its subsidiary as of August 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mitchell Titus, LLP

January 20, 2017

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Consolidated Statements of Financial Position

August 31, 2016 and August 31, 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,980,856	\$ 1,683,920
Investments	5,624,169	4,982,856
Contributions receivable, net	3,376,051	1,629,500
Other receivables	31,394	121,976
Prepaid expenses	287,811	390,183
Deferred expenses	101,928	130,712
Total current assets	<u>11,402,209</u>	<u>8,939,147</u>
Contributions receivable, net	3,494,444	2,525,077
Property and equipment, net of accumulated depreciation	3,089,368	3,220,969
Other Assets	33,600	59,444
Total assets	<u><u>\$ 18,019,621</u></u>	<u><u>\$ 14,744,637</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 396,343	\$ 411,078
Deferred revenue	871,966	982,476
Current portion of mortgage payable	72,432	69,951
Total current liabilities	<u>1,340,741</u>	<u>1,463,505</u>
Mortgage payable	<u>1,387,540</u>	<u>1,459,963</u>
Total liabilities	<u>2,728,281</u>	<u>2,923,468</u>
NET ASSETS		
Unrestricted	3,735,245	3,452,237
Temporarily restricted	5,241,846	2,119,978
Permanently restricted	6,314,249	6,248,954
Total net assets	<u>15,291,340</u>	<u>11,821,169</u>
Total liabilities and net assets	<u><u>\$ 18,019,621</u></u>	<u><u>\$ 14,744,637</u></u>

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

THE PEOPLE'S LIGHT AND THEATRE COMPANY
Consolidated Statements of Activities

	Year Ended August 31, 2016				Year Ended August 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2015
Earned revenue:								
Subscription series tickets	\$ 816,793	\$ -	\$ -	\$ 816,793	\$ 841,912	\$ -	\$ -	\$ 841,912
Single ticket income	822,384	-	-	822,384	791,043	-	-	791,043
Tuition and fees	102,299	-	-	102,299	141,318	-	-	141,318
Other income	433,806	-	-	433,806	280,829	-	-	280,829
Catering & restaurant	1,056,361	-	-	1,056,361	958,379	-	-	958,379
Dividend and interest income	134,109	-	-	134,109	139,800	-	-	139,800
Total earned revenue	<u>3,365,752</u>	<u>-</u>	<u>-</u>	<u>3,365,752</u>	<u>3,153,281</u>	<u>-</u>	<u>-</u>	<u>3,153,281</u>
Contribution revenue:								
Donations and government grants	1,085,362	5,196,500	-	6,281,862	1,235,499	939,287	-	2,174,786
Present value adjustment	-	(51,429)	65,295	13,866	-	7,709	33,121	40,830
Fundraising event revenue	373,922	500	-	374,422	460,234	500	-	460,734
Cost of fundraising events	(181,424)	-	-	(181,424)	(198,099)	-	-	(198,099)
Net assets released from restrictions	2,023,703	(2,023,703)	-	-	1,543,258	(1,543,258)	-	-
Total contributed income	<u>3,301,563</u>	<u>3,121,868</u>	<u>65,295</u>	<u>6,488,726</u>	<u>3,040,892</u>	<u>(595,762)</u>	<u>33,121</u>	<u>2,478,251</u>
Total earned and contributed revenue	<u>6,667,315</u>	<u>3,121,868</u>	<u>65,295</u>	<u>9,854,478</u>	<u>6,194,173</u>	<u>(595,762)</u>	<u>33,121</u>	<u>5,631,532</u>
Program services:								
Mainstage series:								
Salaries, fees and benefits	2,080,090	-	-	2,080,090	1,866,556	-	-	1,866,556
Other production costs	640,115	-	-	640,115	514,683	-	-	514,683
Arts education program:								
Theater school and tours	236,697	-	-	236,697	202,786	-	-	202,786
Operating costs:								
Occupancy	455,516	-	-	455,516	438,556	-	-	438,556
Catering & restaurant	765,172	-	-	765,172	657,906	-	-	657,906
Interest	49,610	-	-	49,610	51,767	-	-	51,767
Total program services	<u>4,227,200</u>	<u>-</u>	<u>-</u>	<u>4,227,200</u>	<u>3,732,254</u>	<u>-</u>	<u>-</u>	<u>3,732,254</u>
Support services:								
Administration	1,150,388	-	-	1,150,388	1,078,966	-	-	1,078,966
Promotion	585,409	-	-	585,409	460,578	-	-	460,578
Fund-raising	433,578	-	-	433,578	392,351	-	-	392,351
Total support services	<u>2,169,375</u>	<u>-</u>	<u>-</u>	<u>2,169,375</u>	<u>1,931,895</u>	<u>-</u>	<u>-</u>	<u>1,931,895</u>
Total expenses before depreciation	<u>6,396,575</u>	<u>-</u>	<u>-</u>	<u>6,396,575</u>	<u>5,664,149</u>	<u>-</u>	<u>-</u>	<u>5,664,149</u>
Earned and contributed revenue over (under) expenses before taxes, depreciation and gains	270,740	3,121,868	65,295	3,457,903	530,024	(595,762)	33,121	(32,617)
Income Tax (Expense) Benefit	(25,844)	-	-	(25,844)	51,944	-	-	51,944
Depreciation	(347,611)	-	-	(347,611)	(331,016)	-	-	(331,016)
Net realized and unrealized gains	385,723	-	-	385,723	(290,116)	-	-	(290,116)
Total depreciation, gains (losses) and other	<u>12,268</u>	<u>-</u>	<u>-</u>	<u>12,268</u>	<u>(569,188)</u>	<u>-</u>	<u>-</u>	<u>(569,188)</u>
Change in net assets	283,008	3,121,868	65,295	3,470,171	(39,164)	(595,762)	33,121	(601,805)
Net assets, at beginning of year	<u>3,452,237</u>	<u>2,119,978</u>	<u>6,248,954</u>	<u>11,821,169</u>	<u>3,491,401</u>	<u>2,715,740</u>	<u>6,215,833</u>	<u>12,422,974</u>
Net assets, at end of year	<u>\$ 3,735,245</u>	<u>\$ 5,241,846</u>	<u>\$ 6,314,249</u>	<u>\$ 15,291,340</u>	<u>\$ 3,452,237</u>	<u>\$ 2,119,978</u>	<u>\$ 6,248,954</u>	<u>\$ 11,821,169</u>

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

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Consolidated Statements of Cash Flows

Years Ended August 31, 2016 and August 31, 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 3,470,171	\$ (601,805)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	347,611	331,016
Net change in fair value of investments	(516,592)	156,790
Change in other receivables	90,582	(77,890)
Change in contributions receivable	(2,715,918)	798,422
Change in prepaid and deferred expenses	131,156	(132,251)
Change in other assets	25,844	-
Change in deferred revenue	(110,510)	46,038
Change in accounts payable and accrued expenses	(14,735)	(124,600)
Net cash provided by operating activities	707,609	395,720
 Cash flows from investing activities:		
Purchase of property and equipment	(216,010)	(203,213)
Proceeds from sales of investments	630,468	3,399,361
Purchase of investments	(755,189)	(3,524,821)
Net cash used in investing activities	(340,731)	(328,673)
 Cash flows from financing activities:		
Repayment of mortgage payable	(69,942)	(67,812)
Net cash used in financing activities	(69,942)	(67,812)
 Net increase (decrease) in cash and cash equivalents	296,936	(765)
 Cash and cash equivalents, at beginning of year	1,683,920	1,684,685
 Cash and cash equivalents, at end of year	\$ 1,980,856	\$ 1,683,920

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

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 1 ORGANIZATION

The People's Light and Theatre Company (the Theatre), located in Malvern, Pennsylvania, is a non-profit, professional theatre exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The mission of the Theatre is to produce plays drawn from many sources to entertain, inspire, and engage its community. The mission is extended by making and experiencing theatre through arts education programs that excite curiosity about—and deepen understanding of—the world around us.

Arts Discovery, the Theatre's arts education program, is an integral part of the Theatre. The six components of this program enable the Theatre to reach a broad cross-section of the community by bringing students and families to the Theatre, enabling teaching artists to share theater techniques with teachers and students in school residencies, and providing a creative, diverse, and supportive environment for young people to take risks and grow. The varied programs reach approximately 11,000 youngsters and their families annually, and expenses are included in production and education costs.

The consolidated financial statements include the results of the Theatre's wholly owned subsidiary, Actors' Inn, Inc. Actors' Inn is a full-service restaurant and catering facility that provides hospitality services for both audience members and the surrounding community. All significant inter-company transactions have been eliminated in consolidation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). The Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (Codification, or ASC) as the single source of authoritative GAAP to be applied by non-governmental entities. The Codification supersedes all existing non-SEC accounting and reporting standards.

Net Asset Classifications

To ensure compliance with restrictions placed on the resources available to the Theatre, funds with similar characteristics have been classified into three net asset categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are not subject to donor-imposed restrictions, or the donor-imposed restrictions have expired.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Asset Classifications *(continued)*

Temporarily restricted net assets are subject to donor-imposed restrictions that permit the Theatre to use or expend the assets for specified purposes or under specified terms. The restrictions are satisfied either by the passage of time or by the actions of the Theatre. At August 31, 2016 and 2015, the majority of the temporarily restricted contributions represented unconditional promises to give with payments due in future periods.

Permanently restricted net assets are those funds subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be used to support Theatre operations.

Revenue Recognition

Contributions are recorded as revenue when received or pledged. Temporarily restricted contributions are reclassified as unrestricted contributions and reported as net assets released from restrictions when a stipulated time restriction ends or donor restrictions have been met. Ticket sales collected for performances of the upcoming season are included in deferred revenue and recognized as increases in unrestricted net assets in the period performances are conducted.

Receipts of unconditional promises to give with payments due in future periods are recorded as contributions receivable at their fair value using a present value technique and recognized as increases to temporarily restricted net assets at the date of promise. Receipts of conditional promises to give, which depend on the occurrence of a specified future and uncertain event, will be recognized when the conditions on which they depend are substantially met.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand and demand and time deposits with financial institutions.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Receivables

Contributions receivable represent donor promises to give that are documented in writing and legally binding. Contributions receivable are included in unrestricted, temporarily restricted, or permanently restricted net assets based on the existence and nature of donor-imposed restrictions and, if applicable, will be released upon satisfaction of those restrictions.

Investments

Investments are recorded at fair value.

Investments as of August 31, 2016 and 2015 consist principally of shares in the Vanguard Group's 500 Index, the Vanguard Total Stock Market Index, the Vanguard Intermediate-Term Investment Grade Index, the Developing Markets Index, the Emerging Markets Stock Index, and the Total International Stock Market Index. Investments are valued based on quoted market values as of August 31, 2016 and 2015.

Property and Equipment

Furniture and equipment, building improvements, and buildings are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets. These assets are depreciated over periods of three to 25 years.

Deferred Expense

Expenses for performances of the upcoming season that are primarily advertising costs are included in deferred expenses and recognized as decreases in unrestricted net assets in the period that performances are conducted.

Income Taxes

The Theatre evaluates tax positions taken or expected to be taken in the course of preparing its tax returns to determine whether it is more-likely-than-not (i.e., greater than 50%) that each tax position will be sustained upon examination by a taxing authority based on the technical merits of the position. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. If applicable, the Theatre recognizes interest accrued related to uncertain tax positions in interest expense on the consolidated statements of activities. However, management's conclusions regarding tax positions taken may be subject to review and adjustment at a future date based on factors including, but not limited to, examination by tax authorities, ongoing analysis of and changes to tax laws, and related regulations and interpretations. During the year, the Theatre did not incur any interest or penalties.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income Taxes *(continued)*

Management has evaluated the tax positions of the Theatre and concluded that there are no uncertain tax positions that require recognition or further disclosure in the notes to the consolidated financial statements. The Theatre is subject to audits by taxing jurisdictions; however, no audits for any periods are currently in progress. Management believes that the Theatre is no longer subject to such audits for years prior to 2012 under Federal, state, and local tax jurisdictions.

During the year ended August 31, 2016, the Theatre's revenue earned from its wholly owned subsidiary, Actors' Inn, exceeded expenses. This net income was appropriately netted against the prior year net operating loss carryforward. The net operating loss carryforward for the Theatre as of August 31, 2016 and 2015 is approximately \$76,393, and \$135,130, respectively, which expire at various dates from 2032 through 2034, resulting in a deferred tax asset of \$33,600 at August 31, 2016. The deferred tax asset was \$59,444 at August 31, 2015.

NOTE 3 CONTRIBUTIONS RECEIVABLE

The anticipated collection of net contributions and grants receivable was as follows:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 3,376,051	\$ 1,629,500
One to five years	<u>3,494,444</u>	<u>2,525,077</u>
Total	<u>\$ 6,870,495</u>	<u>\$ 4,154,577</u>

The fair value adjustment associated with multiyear pledges was \$107,806 and \$121,672 at August 31, 2016 and 2015, respectively. The fair value adjustment was determined utilizing a present value technique and a discount factor of 1.5%. No allowance for doubtful amounts is considered necessary at August 31, 2016 or 2015.

NOTE 4 INVESTMENTS

Fair value is defined as the price that the Theatre would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tier hierarchy is utilized to maximize the use of observable market data and minimize the use of unobservable inputs to establish the classification of fair value measurements for disclosure purposes. Accordingly, the fair value hierarchy gives the highest priority to quoted market prices (unadjusted) in active markets for identical assets and liabilities (Level I) and the lowest priority to unobservable inputs (Level 3).

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 4 INVESTMENTS *(continued)*

The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical, unrestricted assets, or liabilities that the Theatre has the ability to access at the measurement date.

Level 2: Quoted prices that are not active or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability.

Level 3: Prices, inputs, or exotic modeling techniques that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those assets.

As required by GAAP, an investment'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 tables below set forth information about the level within the fair value hierarchy at which the Theatre's investments were measured as of August 31, 2016 and 2015:

	August 31, 2016			
	Total	Level 1	Level 2	Level 3
Equity mutual funds	\$ 4,123,622	\$ 4,123,622	\$ -	\$ -
Fixed income mutual fund	1,500,547	1,500,547	-	-
Total	\$ 5,624,169	\$ 5,624,169	\$ -	\$ -

	August 31, 2015			
	Total	Level 1	Level 2	Level 3
Equity mutual funds	\$ 3,451,619	\$ 3,451,619	\$ -	\$ -
Fixed income mutual fund	1,531,237	1,531,237	-	-
Total	\$ 4,982,856	\$ 4,982,856	\$ -	\$ -

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 124,494	\$ 124,494
Buildings	4,164,682	4,078,987
Building improvements	2,544,320	2,468,667
Furniture and equipment	<u>1,131,453</u>	<u>1,078,014</u>
Subtotal	7,964,949	7,750,162
Less: Accumulated depreciation	<u>(4,875,581)</u>	<u>(4,529,193)</u>
Total	<u><u>\$ 3,089,368</u></u>	<u><u>\$ 3,220,969</u></u>

NOTE 6 DEBT

During fiscal 2014, the Theatre refinanced its existing mortgage. The loan bears interest at a rate of 3.25% and is being amortized over 20 years, with a balloon payment due on April 12, 2019. It is secured by land, buildings, and improvements.

The Theatre has a line of credit, with the same lending institution, in the amount of \$500,000, which matures in September 2017. The interest rate on this facility at August 31, 2016 was the prime rate plus .65%. The line is secured by land, buildings, and improvements. There were no borrowings against the line of credit at August 31, 2016 or 2015.

In fiscal years 2016 and 2015, interest paid was \$49,730 and \$51,975, respectively.

The following table summarizes the principal and interest payments due for debt through maturity, as of August 31, 2016:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 72,432	\$ 47,022	\$ 119,454
2018	74,846	44,599	119,445
2019	<u>1,312,694</u>	<u>28,311</u>	<u>1,341,005</u>
Total	<u><u>\$ 1,459,972</u></u>	<u><u>\$ 119,932</u></u>	<u><u>\$ 1,579,904</u></u>

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of August 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Foundation contributions	\$ 1,864,460	\$ 1,070,461
Corporate and government	-	100,000
Individual contributions	<u>3,377,386</u>	<u>949,517</u>
Total	<u><u>\$ 5,241,846</u></u>	<u><u>\$ 2,119,978</u></u>

Of these amounts, \$3,937,048 and \$1,516,660 were restricted due to time restrictions at August 31, 2016 and 2015, respectively, and \$1,304,798 and \$603,318 were purpose restrictions at August 31, 2016 and 2015, respectively.

During the years ended August 31, 2016 and 2015, \$2,023,703 and \$1,543,258, respectively, were released from temporarily restricted net assets and used for the Theatre's primary purpose. Of these amounts, \$1,674,556 and \$1,287,583 were released from time restrictions for the years ended August 31, 2016 and 2015, respectively, and \$349,147 and \$255,675 were released from purpose restrictions for the years ended August 31, 2016 and 2015, respectively.

NOTE 8 ENDOWMENTS AND PERMANENTLY RESTRICTED NET ASSETS

Effective September 1, 2009, the Theatre adopted the provisions as required of the *Reporting of Endowment Funds Topic* of the FASB ASC 958-205-50. The ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The ASC requires disclosures about all endowment funds, including both donor-restricted endowment funds and management-designated endowment funds. (The Theatre's endowment includes only donor-restricted endowment funds.) As required by GAAP, 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.

Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not adopted UPMIFA. State law allows non-profit organizations to adopt a total return investment policy as provided by Act 141 (1988) of Pennsylvania legislature 15 Pa.C.S.A Section 5548 ("total return election"). During fiscal 2015, the Theatre elected that its endowment fund (Fund) be governed by the provisions of Section 5548.

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 8 ENDOWMENTS AND PERMANENTLY RESTRICTED NET ASSETS*(continued)*Endowment Investment Return Objectives and Risk Parameters

Under this election, the Investment Committee of the Board of Trustees annually determines the average fair value of the assets of the Fund over the three preceding fiscal years (Fund Value), and selects a percentage of no less than 2% or more than 7% of the Fund Value to determine the income from the Fund. The percentage elected annually is consistent with the long-term preservation of the real value of the Fund.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Theatre 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 Theatre 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.

Spending Policy

The Theatre periodically makes distributions from the endowment funds for purposes designated by donors.

Endowment funds and permanently restricted net assets as of August 31, 2016 and 2015 were as follows:

	Permanently Restricted 2016	2015
	<u>2016</u>	<u>2015</u>
Donor-restricted endowment funds	\$ 6,314,249	\$ 6,248,954
Total	<u>\$ 6,314,249</u>	<u>\$ 6,248,954</u>

Changes in endowment funds for the years ended August 31, 2016 and 2015 were as follows:

	Permanently Restricted 2016	2015
	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning of year	\$ 6,248,954	\$ 6,215,833
Contributions and fair value adjustment	65,295	33,121
Endowment net assets, end of year	<u>\$ 6,314,249</u>	<u>\$ 6,248,954</u>

THE PEOPLE'S LIGHT AND THEATRE COMPANY

Notes to Consolidated Financial Statements

August 31, 2016 and 2015

NOTE 8 **ENDOWMENTS AND PERMANENTLY RESTRICTED NET ASSETS**

(continued)

Spending Policy *(continued)*

Permanently restricted net assets are to be held in perpetuity. Investment income earned on permanently restricted net assets is recorded as temporarily restricted or unrestricted net assets based on donor stipulations.

NOTE 9 **LEAGUE OF RESIDENT THEATRES**

The Theatre is a member of the League of Resident Theatres (LORT), which entered into an agreement (LORT Agreement) with the Actors' Equity Association on May 31, 1991. The LORT Agreement requires the Theatre to contribute a fixed amount per week, per actor, to the Equity-League Health Benefits Trust Fund, to provide hospitalization and medical benefits. Health benefit expenses were \$107,480 and \$81,590 for the years ended August 31, 2016 and 2015, respectively. The LORT Agreement also requires the Theatre to contribute to the Equity-League Pension Trust Fund a fixed percentage of gross actor payroll to provide pension benefits. Pension expenses under the agreement for the years ended August 31, 2016 and 2015 were \$39,875 and \$30,403, respectively.

In addition, the Theatre renewed its letter of credit in the amount of \$45,493 that can only be drawn by the Actors' Equity Association in the case of non-payment of payroll and related benefits. The outstanding balance was \$0 at August 31, 2016 and 2015.

NOTE 10 **PENSION PLAN**

The Theatre offers a defined contribution salary deferral plan covering all full-time, non-union, and non-commissioned employees. Under the terms of the plan, the Theatre's contributions are based on years of service and the employee's contribution election. Plan expenses for the years ended August 31, 2016 and 2015 were \$80,994 and \$73,153, respectively.

NOTE 11 **SUBSEQUENT EVENTS**

In preparing the consolidated financial statements, the Theatre evaluated events and transactions for potential recognition or disclosure through January 20, 2017, the date that the consolidated financial statements were available to be issued.

