Celebrity Series of Boston

FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

THE CELEBRITY SERIES OF BOSTON, INC.

Contents
June 30, 2019 and 2018

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Independent Auditor's Report

To the Board of Directors and Management of
The Celebrity Series of Boston, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of The Celebrity Series of Boston, Inc. (a Massachusetts corporation, not for profit), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years 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 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 audits 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 The Celebrity Series of Boston, Inc., as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As disclosed in Note 2, during fiscal year 2019, The Celebrity Series of Boston, Inc. adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which aims to provide, among other items, analysis of expense by both natural classification and functional classification, clarity over the classification of net assets, methods used to allocate costs to programmatic and support functions, as well as information concerning liquidity and availability of resources. Our opinion is not modified with respect to this matter.

Alexander, Aronson, Finning & Co., P.C.

Westborough, Massachusetts
September 17, 2019

THE CELEBRITY SERIES OF BOSTON, INC.

Statements of Financial Position
June 30, 2019 and 2018

Assets	**2019**	**2018**
Current Assets:		
Cash and cash equivalents	$ 1,929,279	$ 2,071,313
Current portion of pledges and other receivables	1,020,132	563,266
Prepaid expenses and other	348,461	253,065
Total current assets	3,297,872	2,887,644
Restricted Cash	-	113,904
Investments	12,862,472	11,246,762
Pledges and Other Receivables, net of current portion and discount	5,251,439	3,960,380
Property and Equipment, net	255,992	266,220
Total assets	$ 21,667,775	$ 18,474,910
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 253,314	$ 288,534
Advance ticket subscriptions and other	1,728,200	1,778,941
Total current liabilities	1,981,514	2,067,475
Net Assets:		
Without donor restrictions	144,829	131,457
With donor restrictions	19,541,432	16,275,978
Total net assets	19,686,261	16,407,435
Total liabilities and net assets	$ 21,667,775	$ 18,474,910

The accompanying notes are an integral part of these statements.

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2019 and 2018

	2019			2018				
				Without Donor Restrictions				
	Without Donor Restrictions	With Donor Restrictions	Total	Operating	Board Designated	Total	With Donor Restrictions	Total
Operating Revenue and Support:								
Operating revenue:								
Ticket sales, net	$ 3,680,083	$ -	$ 3,680,083	$ 4,017,392	$ -	$ 4,017,392	$ -	$ 4,017,392
Stabilization and management fees	118,996	-	118,996	126,622	-	126,622	-	126,622
Processing fees	87,829	-	87,829	112,428	-	112,428	-	112,428
Advertising	6,077	-	6,077	6,975	-	6,975	-	6,975
Total operating revenue	3,892,985	-	3,892,985	4,263,417	-	4,263,417	-	4,263,417
Operating support:								
Grants and contributions	1,516,397	3,086,090	4,602,487	1,662,365	-	1,662,365	1,997,306	3,659,671
Investment return designated for current operations	328,000	-	328,000	299,000	-	299,000	-	299,000
Interest and other	11,659	-	11,659	1,002	-	1,002	-	1,002
Net assets released from restrictions:								
Time - future years	761,935	(761,935)	-	843,307	-	843,307	(843,307)	-
Time - special events	77,000	(77,000)	-	89,000	-	89,000	(89,000)	-
Purpose	786,090	(786,090)	-	213,727	-	213,727	(213,727)	-
Total operating support	3,481,081	1,461,065	4,942,146	3,108,401	-	3,108,401	851,272	3,959,673
Special events revenue	471,748	67,000	538,748	378,133	-	378,133	46,000	424,133
Less - special events expense	(294,871)	-	(294,871)	(301,747)	-	(301,747)	-	(301,747)
Special events, net	176,877	67,000	243,877	76,386	-	76,386	46,000	122,386
Total operating revenue and support	7,550,943	1,528,065	9,079,008	7,448,204	-	7,448,204	897,272	8,345,476
Operating Expenses:								
Performance and education	6,068,993	-	6,068,993	6,106,715	30,364	6,137,079	-	6,137,079
Management and general	689,183	-	689,183	667,923	26,892	694,815	-	694,815
Fundraising	779,936	-	779,936	641,719	56,540	698,259	-	698,259
Total operating expenses	7,538,112	-	7,538,112	7,416,357	113,796	7,530,153	-	7,530,153
Changes in net assets from operations	12,831	1,528,065	1,540,896	31,847	(113,796)	(81,949)	897,272	815,323
Non-Operating Revenue (Expenses):								
Endowment contributions	-	1,441,759	1,441,759	-	-	-	2,624,728	2,624,728
Investment return, net of fees	541	975,295	975,836	-	9,989	9,989	601,493	611,482
Net assets released from restrictions - capital campaign costs	351,665	(351,665)	-	305,903	-	305,903	(305,903)	-
Investment return designated for current operations	-	(328,000)	(328,000)	-	-	-	(299,000)	(299,000)
Capital campaign costs	(351,665)	-	(351,665)	(305,903)	-	(305,903)	-	(305,903)
Total non-operating revenue (expenses)	541	1,737,389	1,737,930	-	9,989	9,989	2,621,318	2,631,307
Changes in net assets	13,372	3,265,454	3,278,826	31,847	(103,807)	(71,960)	3,518,590	3,446,630
Net Assets:								
Beginning of year	131,457	16,275,978	16,407,435	99,610	103,807	203,417	12,757,388	12,960,805
End of year	$ 144,829	$ 19,541,432	$ 19,686,261	$ 131,457	$ -	$ 131,457	$ 16,275,978	$ 16,407,435

The accompanying notes are an integral part of these statements.

Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Changes in net assets	$ 3,278,826	$ 3,446,630
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Endowment contributions	(1,441,759)	(2,624,728)
Depreciation	73,104	30,671
Change in discount on operating pledges and other receivables	85,178	7,558
Net realized and unrealized gains on investments	(643,768)	(364,416)
Changes in operating assets and liabilities:		
Operating pledges and other receivables	(1,762,786)	174,315
Prepaid expenses and other	(95,396)	(75,605)
Accounts payable and accrued expenses	(35,220)	87,379
Advance ticket subscriptions and other	(50,741)	(169,941)
Net cash provided by (used in) operating activities	(592,562)	511,863
Cash Flows from Investing Activities:		
Net decrease (increase) in restricted cash	113,904	(113,904)
Acquisition of property and equipment	(62,876)	(225,543)
Purchases of investments	(2,190,513)	(2,786,286)
Proceeds from sale of investments	1,218,571	1,343,558
Net cash used in investing activities	(920,914)	(1,782,175)
Cash Flows from Financing Activities:		
Endowment contributions received	1,371,442	1,298,375
Net Change in Cash and Cash Equivalents	(142,034)	28,063
Cash and Cash Equivalents:		
Beginning of year	2,071,313	2,043,250
End of year	$ 1,929,279	$ 2,071,313
Supplemental Disclosure of Non-Cash Transactions:		
Unrealized gains on investments	$ 579,564	$ 143,061

The accompanying notes are an integral part of these statements.

Statements of Functional Expenses
For the Years Ended June 30, 2019 and 2018

	2019				2018			
	Performance and Education	Management and General	Fundraising	Total	Performance and Education	Management and General	Fundraising	Total
Payroll and Related:								
Salaries	$ 1,242,580	$ 389,690	$ 392,025	$ 2,024,295	$ 1,120,375	$ 396,309	$ 361,260	$ 1,877,944
Payroll taxes and benefits	215,335	63,707	68,199	347,241	222,977	77,730	65,219	365,926
Total payroll and related	1,457,915	453,397	460,224	2,371,536	1,343,352	474,039	426,479	2,243,870
Operating Expenses:								
Artist fees	1,919,225	-	-	1,919,225	2,031,477	-	-	2,031,477
Direct performance costs	1,353,326	-	-	1,353,326	1,434,496	-	-	1,434,496
Advertising	590,482	-	-	590,482	571,309	-	-	571,309
Printing and postage	231,010	975	81,977	313,962	264,672	808	55,706	321,186
Occupancy	160,361	31,178	62,357	253,896	142,003	26,606	62,141	230,750
Travel and entertainment	44,971	57,913	16,633	119,517	51,027	60,083	21,217	132,327
Contracted services	80,494	2,480	35,701	118,675	95,999	1,827	37,275	135,101
Equipment leases and maintenance	59,813	11,629	23,259	94,701	61,987	11,614	27,126	100,727
Service agreements	72,425	1,877	-	74,302	80,988	1,877	-	82,865
Depreciation	46,172	8,978	17,954	73,104	23,003	3,834	3,834	30,671
Professional fees	2,217	66,506	-	68,723	2,910	53,757	-	56,667
Events	-	966	60,149	61,115	-	385	42,331	42,716
Design	39,946	-	-	39,946	26,115	-	-	26,115
Insurance	-	24,426	-	24,426	-	25,588	-	25,588
Dues and subscriptions	8,154	11,956	3,802	23,912	6,393	11,947	1,620	19,960
Board expenses	-	4,321	9,420	13,741	-	1,066	8,302	9,368
Supplies	896	12,425	308	13,629	634	17,747	889	19,270
Miscellaneous	1,586	156	8,152	9,894	714	3,637	11,339	15,690
Subtotal	6,068,993	689,183	779,936	7,538,112	6,137,079	694,815	698,259	7,530,153
Capital campaign costs	-	-	351,665	351,665	-	-	305,903	305,903
Special events expense	-	-	294,871	294,871	-	-	301,747	301,747
Total expenses	6,068,993	689,183	1,426,472	8,184,648	6,137,079	694,815	1,305,909	8,137,803
Less - capital campaign costs	-	-	(351,665)	(351,665)	-	-	(305,903)	(305,903)
Less - special events expense	-	-	(294,871)	(294,871)	-	-	(301,747)	(301,747)
Total expenses included in the statements of activities and changes in net assets	$ 6,068,993	$ 689,183	$ 779,936	$ 7,538,112	$ 6,137,079	$ 694,815	$ 698,259	$ 7,530,153

1. OPERATIONS AND NONPROFIT STATUS

The Celebrity of Series of Boston, Inc. (the Organization) is a nonprofit corporation whose mission is to present performing artists who inspire and enrich the community and whose vision incorporates a belief in the power of excellence and innovation in the performing arts to enrich life experience, transform lives, and build better communities. The Organization envisions a community of Greater Boston where the performing arts are a valued, lifelong, shared experience – on stages, in neighborhoods, on streets – everywhere – and offers a wide range of community-based programming to introduce young audiences and their families to the value of live performance. The Organization's events and performances are held in the Greater Boston, Massachusetts area.

The Organization is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization is also exempt from state income taxes. Donors may deduct contributions made to the Organization within the IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Recently Adopted Accounting Pronouncement

During fiscal year 2019, the Organization adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. The adoption of this ASU did not impact the Organization's net asset classes, results of operations, or cash flows for the year ended June 30, 2018. This ASU has been applied retrospectively to all periods presented. This ASU provides an option to omit the disclosures about liquidity and availability of resources for the fiscal year ended June 30, 2018.

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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

For the purpose of the statements of cash flows, management considers all highly liquid instruments with initial maturities of three months or less to be cash equivalents, other than the money market portion of the Organization's investment account and restricted cash (see Note 5).

Cash and cash equivalents are maintained in two banks in Massachusetts and are insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At times, cash and cash equivalents exceeded the insured limits. The Organization has not experienced any losses in such accounts. The Organization's management believes the Organization is not exposed to any significant credit risk on its operating cash.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

Prepaid expenses include costs incurred relating to productions to be performed during the next fiscal year. These costs are expensed at the time of the related productions.

Property and Equipment and Depreciation

Property and equipment are recorded at cost when purchased or at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred (see Note 6).

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Computer equipment	3 years
Office furniture and equipment	3 - 7 years
Leasehold improvements	Term of lease
Software	3 years
Website	5 years

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.

Level 2 - Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

Investments and Spending Policy

The Organization records its investments at fair value using Level 1 inputs (see above). Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the year (see Note 7).

The Organization adheres to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Subject to the intent of a donor, an institution may appropriate for expenditure or accumulate so much of a donor restricted endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the donor restricted endowment fund is established. The assets in a donor restricted endowment fund are donor-restricted assets until appropriated for expenditure by the Organization.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and Spending Policy (Continued)

The Organization has adopted investment and spending policies for endowment assets (see Notes 3 and 4) that aim to provide a level of support for the Organization and its programs, while maintaining or enhancing the purchasing power of the endowment in accordance with UPMIFA. Under the investment policy, the endowment assets are invested to provide a competitive total rate of return commensurate with prudent diversification and moderate risk. Risk and diversification parameters have been established and the endowment is maintained and rebalanced accordingly, if necessary.

The Organization relies on a total rate of return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). While it is understood that the endowment assets are to be managed with a long-term focus, a benchmark hypothetical portfolio has been established to monitor performance on a quarterly basis.

The Organization has a policy of appropriating for operations each year a percentage of the rolling average of the endowment investments for the prior twelve quarter-end fair values ending March of the fiscal year in which the distribution is planned (see Note 4). The spending policy allows for an appropriation percentage of up to 7%. The appropriation percentage applied in fiscal years 2019 and 2018 was 5% in each year (see Note 4). In establishing this policy, the Organization considered the expected returns plus an adjustment for inflation. This is consistent with the stated goal of enhancing the purchasing power of the endowment over time, while providing necessary funds for operations. In the event of a significant market decline, the Organization will consider all factors relevant to the stated goal in determining any change to the appropriation as allowed by UPMIFA.

The Organization's capital campaign (see Note 5) has resulted in the creation of a new Innovation Fund (see Note 3) for which a separate investment and spending policy was approved by the Board of Directors in fiscal year 2018. The overall goal of the Innovation Fund is to enable innovative performances not previously presented by the Organization, accelerate initiatives that enhance community engagement, and support investment in infrastructure and personnel to improve patrons' experience of live performance. Its primary investment objective is to maximize dividend income and capital appreciation while providing funding for an annual spend, if approved by the Board. During fiscal years 2019 and 2018, the Board of Directors approved releases of $500,000 and $150,000, respectively, from the Innovation Fund, which are reflected in net assets released from restrictions in the accompanying statements of activities and changes in net assets.

Revenue Recognition

Ticket sales and related revenue are recognized in the period in which the related performances are given. The receipt of subscription fees and sales of tickets for the following year's performances are recorded as advance ticket subscriptions, a current liability in the accompanying statements of financial position. Grants and contributions without donor restrictions are recognized when unconditionally pledged or received. Special events revenue is recognized in the period in which the events occur.

Gifts of cash and other assets are reported as support and net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

All other revenue is recorded when earned.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions

The Organization receives services of many volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying financial statements, since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria for recognition under the ASC *Accounting for Contributions Received and Contributions Made* standards.

Expense Allocations

Expenses related directly to a function are distributed to that function, while other expenses are allocated to functions based upon management's estimate of percentage attributable to each function. The financial statements contain certain categories of expenses that are attributable to both program and supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are payroll taxes and benefits, occupancy, and depreciation, which are allocated on the basis of estimates of time and effort.

Advertising

Generally, event advertising costs are expensed in the year of the related performances.

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of the Organization's operations are reported as either operating revenue and support or operating expenses in the accompanying statements of activities and changes in net assets. See also Notes 5 and 7.

Special Events

Net special events revenues are as follows for the years ended June 30:

	2019	2018
Net special events revenue raised and earned in the current fiscal year	$ 176,877	$ 76,386
Net special events revenue raised in prior fiscal years for the current fiscal year (reflected as net assets released from restrictions - time - special events)	77,000	89,000
Total for the current fiscal year	253,877	165,386
Net special events revenue raised in the current fiscal year for future fiscal years	67,000	46,000
	$ 320,877	$ 211,386

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ticket Sales

Ticket sales of $3,680,083 and $4,017,392 are reported net of direct costs (credit card charges and restoration fees) of $261,618 and $274,867 for the years ended June 30, 2019 and 2018, respectively, in the accompanying financial statements.

Allowance for Doubtful Pledges and Other Receivables

Allowance for doubtful pledges and other receivables is recorded based on management's review of pledges and other receivables and their estimate of amounts that may become uncollectible in accordance with the Organization's policy. Amounts are written off as they are determined to be uncollectible. There was no allowance for doubtful pledges and other receivables deemed necessary at June 30, 2019 and 2018.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2019 and 2018. However, the Organization's information returns are subject to examination by the appropriate jurisdictions.

Income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income in both the Federal and Massachusetts jurisdictions. There was no taxable net income from these activities for the years ended June 30, 2019 and 2018.

Subsequent Events

Subsequent events have been evaluated through September 17, 2019, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

3. NET ASSETS

Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Organization.

With Donor Restrictions

The Organization receives contributions and grants that are designated by donors for specific time periods or purposes. These contributions are recorded as net assets with donor restrictions until they are expended for their designated purposes or as time restrictions expire. Net assets with donor restrictions also include amounts received from donors with the stipulation that the principal will be held in perpetuity and unspent appreciation on those funds. In accordance with Massachusetts law, all earnings and appreciation of a donor restricted endowment are restricted until appropriated by the Organization's spending policy (see Notes 2 and 4).

3. NET ASSETS (Continued)

With Donor Restrictions (Continued)

Net assets with donor restrictions are restricted as follows at June 30:

	2019	2018
Subject to expenditure for specified purpose:		
Innovation Fund, including any unspent appreciation (losses) (see Note 5)	$ 5,838,793	$ 4,567,667
Geo mapping and brand assessment	75,000	-
	5,913,793	4,567,667
Subject to the passage of time:		
Future years	1,451,800	828,435
Special events	67,000	77,000
	1,518,800	905,435
Subject to the Organization's endowment spending policy and appropriation:		
Investment in perpetuity (including amounts above the original gift amounts of $10,632,178 and $9,509,296 as of June 30, 2019 and 2018, respectively)	12,108,839	10,802,876
	$ 19,541,432	$ 16,275,978

Investment in perpetuity – original gift amounts, are restricted for the following purposes at June 30:

	2019	2018
General endowment	$ 9,910,766	$ 8,787,884
Education endowment	600,000	600,000
Scholarship endowment	121,412	121,412
	$ 10,632,178	$ 9,509,296

4. ENDOWMENT

Changes in endowment net assets (see Note 3) for the years ended June 30, 2019 and 2018, are as follows:

Endowment net assets, June 30, 2017	$ 8,370,614
Endowment contributions	2,624,728
Investment activity:	
Net unrealized losses on investments	(41,620)
Interest and dividends	178,104
Net realized gains on investments	207,925
Investment management fees	(38,275)
Total investment activity	306,134
Investment return designated for current operations	(299,000)
Net assets released from restrictions - capital campaign costs	(199,600)
Endowment net assets, June 30, 2018	10,802,876
Endowment contributions	1,441,759
Investment activity:	
Net unrealized gains on investments	272,827
Interest and dividends	240,264
Net realized gains on investments	40,596
Investment management fees	(42,606)
Total investment activity	511,081
Investment return designated for current operations	(328,000)
Net assets released from restrictions - capital campaign costs	(318,877)
Endowment net assets, June 30, 2019	$ 12,108,839

In accordance with U.S. GAAP, losses on investments of a donor restricted endowment reduce net assets with donor restrictions to the extent of net accumulated appreciation on these funds. Any remaining losses reduce net assets without donor restrictions. Future gains, if any, that restore the assets of the endowment fund to the original level will increase net assets without donor restrictions.

In the event of a significant market decline, the Organization will consider all factors relevant to the stated goal in determining any change to the appropriation as allowed by UPMIFA.

The Organization allocated $328,000 and $299,000 of net assets with donor restrictions during fiscal years 2019 and 2018, respectively, to be used for operations in accordance with its investments and spending policy (see Note 2).

5. PLEDGES AND OTHER RECEIVABLES

Capital Campaign

In February 2018, the Organization announced the public launch of its $23 million **LIVE PERFORMANCE!** *Arts For All* capital campaign. The funds raised will be dedicated to deliver greater artistic impact, grow community programs that introduce the joy of live performance to new audiences, and build a stronger infrastructure that will capitalize on state-of-the-art technology.

The $23 million campaign is divided across three separate funds:

- ***Endowment Fund –*** to increase the capital of the existing endowment to improve the long-term stability and growth for the Organization as a whole (see Notes 3 and 4).

- ***Innovation Fund –*** to provide funds to enable new artists, programs and/or a combination of the both, accelerate initiatives that enhance our community engagement work, and support investment in infrastructure and personnel to improve our patrons' experience of live performance. This will be a draw-down fund, which will be applied to the annual budget over a period of up to fifteen years (see Notes 2 and 3).

- ***Annual Fund –*** the campaign included annual fund donations from its fiscal years ended June 30, 2019, 2018 and 2017. The Annual Fund provides operating revenue without donor restrictions to the Organization on an annual basis and supports world-class performances, emerging artists, commissioning of new work, and community programs.

The Organization achieved its goal of securing $23 million in campaign gifts, pledges and commitments. The Endowment, Innovation and Annual Fund gifts and pledges are reflected as grants and contributions with or without donor restrictions or endowment contributions in the accompanying financial statements and notes as appropriate. The campaign also generated several planned giving pledges (see Note 12) not reflected in the accompanying statements of financial position.

The costs of the campaign are funded by a combination of campaign donations and purpose restricted donations (see Note 3). The campaign allows for certain amounts raised to cover costs and these have been reflected in net assets with donor restrictions as endowment contributions. Management currently projects that total campaign costs will not exceed ten percent of the total of Endowment and Innovation funds raised.

The Organization has capital campaign pledges receivable intended for the endowment fund, which are due as follows at June 30:

	2019	2018
Due in less than one year	$ 1,148,398	$ 894,000
Due in one to five years	2,641,663	2,810,800
Due in six to nine years	300,000	400,000
	4,090,061	4,104,800
Less - discount to present value of future cash flows	190,596	275,652
	$ 3,899,465	$ 3,829,148

5. PLEDGES AND OTHER RECEIVABLES (Continued)

Capital Campaign (Continued)

The entirety of the Organization's capital campaign pledges receivable intended for the endowment fund are reflected as long-term assets as they will be converted into long-term endowment and investments upon collection and expenditure of the funds in accordance with the donors' restrictions.

The cash received for the endowment fund and not yet in the endowment investment account is reflected as restricted cash at June 30, 2018. There was no such restricted cash at June 30, 2019.

Operating

The Organization has operating pledges and other receivables, including pledges intended for the Innovation Fund (see Note 3), which are due as follows at June 30:

	2019	2018
Due in less than one year	$ 1,020,132	$ 563,266
Due in one to five years	1,445,920	140,000
	2,466,052	703,266
Less - discount to present value of future cash flows	93,946	8,768
Less - current portion	1,020,132	563,266
	$ 1,351,974	$ 131,232

Long-term capital campaign and operating pledges receivable have been discounted using discount factors ranging from 1.94% to 2.25%, which are based on the U.S. Treasury note rates.

See Note 8 for pledges and other receivables concentrations.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2019	2018
Computer equipment	$ 430,706	$ 410,649
Website	212,900	202,900
Office furniture and equipment	175,743	156,986
Leasehold improvements	83,475	83,475
Software	53,318	39,256
	956,142	893,266
Less - accumulated depreciation	700,150	627,046
Net property and equipment	$ 255,992	$ 266,220

7. INVESTMENTS

The following is a summary of the investment portfolio as of June 30:

	2019	2018
Money market	$ 375,185	$ 356,682
Equities:		
Domestic common stock	8,348,266	7,380,153
Preferred stock	639,935	361,220
Fixed income:		
Corporate bonds	1,963,154	1,643,764
Mutual funds:		
International equity mutual funds	748,180	754,125
Real estate investment trusts	787,752	750,818
	$ 12,862,472	$ 11,246,762

Investment return consists of the following for the years ended June 30:

	2019	2018
Net unrealized gains on investments	$ 579,564	$ 143,061
Interest and dividends	400,339	309,924
Net realized gains on investments	64,204	221,355
Investment management fees	(68,271)	(62,858)
	$ 975,836	$ 611,482

Investments are not insured and are subject to ongoing market fluctuations. See also Note 2.

All investments at June 30, 2019 and 2018, are classified as long-term due to management's intent to hold these investments for long-term purposes.

8. FUNDING CONCENTRATIONS

Of the $6,271,571 of pledges and other receivables (from 74 donors) to the capital campaign and annual fund at June 30, 2019 (see Note 5), approximately 72% of the balance is from members of the Board of Directors. Twenty-eight percent of the total pledges and other receivables at June 30, 2019, are owed by two members of the Board of Directors.

Of the $4,523,646 of pledges and other receivables (from 33 donors) to the capital campaign and annual fund at June 30, 2018, approximately 90% of the balance is from members of the Board of Directors. Eighty-one percent of the total pledges and other receivables at June 30, 2018, are owed by four members of the Board of Directors.

For the years ended June 30, 2019 and 2018, approximately 11% and 18%, respectively, of the Organization's total operating revenue and support, encompassing revenue with and without donor restrictions, was from one donor, who is also a Board member. For the year ended June 30, 2019, approximately 40% of the Organization's endowment contributions are from two donors, who are also Board members. For the year ended June 30, 2018, approximately 76% of the Organization's endowment contributions are from two donors, who are also Board members.

For the years ended June 30, 2019 and 2018, approximately 17% and 18%, respectively, of the Organization's net ticket sales were for the Alvin Ailey American Dance Theater performances.

9. LEASE AGREEMENTS

The Organization leases space under an operating lease agreement that will expire in August 2023. Under the lease agreement, the Organization pays monthly rent, which increases annually as defined in the lease agreement. The lease requires the Organization to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses. The Organization paid monthly lease payments that ranged from $14,924 to $16,675 per month during fiscal years 2019 and 2018. Rent expense under the facility lease was $196,598 and $177,420 for the years ended June 30, 2019 and 2018, respectively, and is included in occupancy in the accompanying statements of functional expenses.

The Organization also leases office equipment under operating lease agreements that expire at various dates through November 30, 2021. Total equipment rent expense under these lease agreements was approximately $10,800 for the years ended June 30, 2019 and 2018, and is included in equipment leases and maintenance in the accompanying statements of functional expenses.

Remaining minimum lease payments for office space and equipment are as follows:

Fiscal Year	
2020	$ 216,506
2021	$ 222,828
2022	$ 223,518
2023	$ 225,668
2024	$ 37,797

10. EMPLOYEE BENEFIT PLANS

IRC Section 403(b) Retirement Plan

The Organization has a defined contribution retirement plan (the Plan) covering all eligible employees under IRC Section 403(b). Full-time employees become eligible upon employment. The Organization has the right to make discretionary contributions to the Plan, which are 100% vested immediately. During fiscal years 2019 and 2018, the Organization elected to make contributions to the Plan of $20,712 and $17,739, respectively, which are included in payroll taxes and benefits in the accompanying statements of functional expenses.

IRC Section 457(b) Deferred Compensation Plan

The Organization has an IRC Section 457(b) deferred compensation plan (the 457(b) Plan) for one of its key executives. The key executive is able to defer compensation into the plan in accordance with IRC limits. Under the terms of the 457(b) Plan, monies deposited by the Organization, as well as reinvested investment return, remains the property of the Organization. The assets of the 457(b) Plan as of June 30, 2019 and 2018, were $92,083 and $65,844, respectively. These assets are included in investments in the accompanying statements of financial position as of June 30, 2019 and 2018. The related liability is included in accounts payable and accrued expenses in the accompanying statements of financial position as of June 30, 2019 and 2018.

11. BANK CREDIT FACILITY

The Organization has a $500,000 revolving credit agreement with a bank, with a maturity date of June 30, 2020. Borrowings under the agreement are due at maturity and interest is payable monthly at the bank's prime rate (5.50% and 5.00% at June 30, 2019 and 2018, respectively). There was no outstanding balance at June 30, 2019 and 2018. The revolving credit facility is secured by the Organization's personal property. This facility also has certain covenants with which the Organization must comply. The Organization was in compliance with these covenants as of June 30, 2019 and 2018.

12. CONDITIONAL PROMISES TO GIVE

Donors have notified the Organization of bequests totaling at least $1,220,000 to which the Organization will be entitled upon the donors' deaths. Since these gifts are conditional, the Organization has not recorded these amounts in the accompanying financial statements.

During fiscal year 2017, a foundation awarded the Organization a three-year grant of $600,000 based on the Organization meeting certain criteria in accordance with the grant agreement. The Organization received $200,000 of this grant in each of fiscal years 2018 and 2017. During fiscal year 2019, the Organization received the remaining $200,000.

13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available within one year from the statement of financial position date for general operating expenses are as follows:

Cash and cash equivalents	$ 1,929,279
Pledges and other receivables	1,020,132
Total financial assets	2,949,411
Donor-imposed restrictions	(1,566,134)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,383,277

The Organization holds adequate funds to meet daily operating needs, donor-restricted fund requirements and operating reserves in cash and short-term investments. The Endowment and Innovation Funds (donor-restricted funds, see Note 3) and any additional general funds without donor restriction are invested conservatively in the stock and bond markets. As part of the Organization's liquidity management, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, in the event of an unanticipated liquidity need, management could draw upon its $500,000 revolving credit agreement as discussed in Note 11. The revolving credit agreement has not been used in fiscal years 2019 and 2018.

14. RECLASSIFICATIONS

Certain amounts in the June 30, 2018 financial statements have been reclassified to conform with the June 30, 2019 presentation.