



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

OLD GLOBE THEATRE DBA THE OLD GLOBE

December 31, 2018
(with summarized comparative financial information for the
year ended December 31, 2017)

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Report of Independent Auditors

To the Board of Directors
Old Globe Theatre dba The Old Globe

Report on Financial Statements

We have audited the accompanying financial statements of Old Globe Theatre dba The Old Globe (“The Old Globe”), which comprise the statement of financial position as of December 31, 2018, the statement of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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 Old Globe as of December 31, 2018, and its changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, as of December 31, 2018, The Old Globe adopted Accounting Standards Update (ASU) 2016-14, *Presenting Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, as of and for the year ended December 31, 2018, The Old Globe adopted ASU 2014-09, *Revenue from Contracts with Customers*, using the modified retrospective method applied to all contracts. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, as of and for the year ended December 31, 2018, The Old Globe adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Old Globe's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

Moss Adams LLP

San Diego, California
March 27, 2019

Old Globe Theatre dba The Old Globe
Statements of Financial Position

ASSETS

	December 31,	
	2018	2017
Cash and cash equivalents	\$ 7,872,470	\$ 7,016,803
Investments	2,458,506	3,224,448
Receivables, net	9,813,079	8,596,841
Inventories	153,312	137,587
Prepaid expenses and other assets	536,906	708,598
Property and equipment	23,593,788	24,529,860
Endowment assets:		
Investments	6,082,443	3,688,195
Pledges receivable, net	6,520,353	8,379,313
Total assets	\$ 57,030,857	\$ 56,281,645

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 2,183,042	\$ 1,398,014
Deferred revenue	4,331,001	3,434,607
Debt	2,500,686	2,666,408
Total liabilities	9,014,729	7,499,029

Commitments and Contingencies (Notes 9, 12, and 13)

Net Assets

Without donor restrictions:

Undesignated	417,994	413,634
Designated for property and equipment	19,753,546	20,519,501
Designated for endowment	378,773	378,773
Total unrestricted	20,550,313	21,311,908
With donor restrictions	27,465,815	27,470,708
Total net assets	48,016,128	48,782,616

Total liabilities and net assets	\$ 57,030,857	\$ 56,281,645
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Old Globe Theatre dba The Old Globe

Statement of Activities

	Year Ended December 31, 2018			Year Ended December 31, 2017 (summarized)
	Without Donor Restrictions	With Donor Restrictions	Total	Total
OPERATING REVENUE				
Ticket sales	\$ 14,614,306	\$ -	\$ 14,614,306	\$ 12,941,115
Enhancements	2,056,656	-	2,056,656	796,471
Retail	927,299	-	927,299	631,860
Investment income	311,904	-	311,904	288,508
Other revenue	223,499	-	223,499	85,986
Royalties	71,697	-	71,697	46,168
Education	51,262	-	51,262	39,709
Rental income	10,898	-	10,898	21,530
Total operating revenue	<u>18,267,521</u>	<u>-</u>	<u>18,267,521</u>	<u>14,851,347</u>
OPERATING EXPENSES				
Program services	23,498,398	-	23,498,398	21,032,509
Management and general	3,354,634	-	3,354,634	2,987,319
Total operating expenses	<u>26,853,032</u>	<u>-</u>	<u>26,853,032</u>	<u>24,019,828</u>
Operating loss	<u>(8,585,511)</u>	<u>-</u>	<u>(8,585,511)</u>	<u>(9,168,481)</u>
CONTRIBUTED INCOME				
Contributions	5,556,657	3,202,362	8,759,019	7,743,845
Net assets released from restrictions	2,511,278	(2,511,278)	-	-
	<u>8,067,935</u>	<u>691,084</u>	<u>8,759,019</u>	<u>7,743,845</u>
Special events	1,352,564	-	1,352,564	1,284,384
Government grants	586,640	-	586,640	672,488
Endowment earnings	-	(411,353)	(411,353)	613,092
Appropriated endowment earnings	-	(268,073)	(268,073)	(261,683)
In-kind contributions	407,364	-	407,364	419,189
Total contributed income	<u>10,414,503</u>	<u>11,658</u>	<u>10,426,161</u>	<u>10,471,315</u>
EXPENSES				
Fund-raising	2,087,492	-	2,087,492	2,027,431
Special events	466,382	-	466,382	442,979
Total expenses	<u>2,553,874</u>	<u>-</u>	<u>2,553,874</u>	<u>2,470,410</u>
Net contributed income	<u>7,860,629</u>	<u>11,658</u>	<u>7,872,287</u>	<u>8,000,905</u>
Change in Net Assets Before Losses	(724,882)	11,658	(713,224)	(1,167,576)
(Losses)/Gains				
Net realized and unrealized (losses)/gains on investments	(36,713)	(16,551)	(53,264)	65,860
Total (losses)/gains	<u>(36,713)</u>	<u>(16,551)</u>	<u>(53,264)</u>	<u>65,860</u>
CHANGE IN NET ASSETS	(761,595)	(4,893)	(766,488)	(1,101,716)
NET ASSETS				
Beginning of year, as restated (Note 1)	21,311,908	27,470,708	48,782,616	49,884,332
End of year	<u>\$ 20,550,313</u>	<u>\$ 27,465,815</u>	<u>\$ 48,016,128</u>	<u>\$ 48,782,616</u>

Old Globe Theatre dba The Old Globe Statements of Cash Flows

	Years Ended December 31,	
	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ (766,488)	\$ (1,101,716)
Reconciliation to net cash from operating activities:		
Depreciation and amortization	1,591,585	1,563,928
Change in allowance on pledges receivable	100,000	(244,814)
Change in discount on pledges receivable	(257,819)	(423,422)
Net realized and unrealized losses/(gains)	705,557	(536,133)
Restricted contributions - pledges receivable	(2,988,400)	(1,689,031)
(Increase) decrease in operating assets:		
Receivables	(623,309)	77,920
Inventories	(15,725)	(20,922)
Prepaid expenses and other assets	171,692	(57,192)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	785,028	(419,428)
Deferred revenue	896,394	(40,402)
Net cash (used in) operating activities	(401,485)	(2,891,212)
INVESTING ACTIVITIES		
Proceeds from sale of investments	2,938,808	4,087,062
Purchases of investments	(5,272,671)	(4,062,220)
Additions to construction-in-progress	(42,920)	(75,251)
Purchases of property and equipment	(608,198)	(517,521)
Net cash (used in) investing activities	(2,984,981)	(567,930)
FINANCING ACTIVITIES		
Collections of restricted pledges receivable	4,412,250	2,754,987
Principal payments on debt	(170,117)	(189,469)
Net cash provided by financing activities	4,242,133	2,565,518
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	855,667	(893,624)
CASH AND CASH EQUIVALENTS		
Beginning of year	7,016,803	7,910,427
End of year	\$ 7,872,470	\$ 7,016,803
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 101,796	\$ 108,151

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 1 – Nature of the Organization and Significant Accounting Policies

Nature of the organization – Old Globe Theatre dba The Old Globe (“The Old Globe”) is a not-for-profit California organization located in San Diego, California. The Old Globe’s mission is to preserve, strengthen, and advance American theatre by: creating theatrical experiences of the highest professional standards; producing and presenting works of exceptional merit designed to reach current and future audiences; ensuring diversity and balance in programming; and providing an environment for the growth and education of theatre professionals, audiences, and the community at large.

Income taxes – The Old Globe is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Old Globe may be subject to federal or state income taxes on unrelated business income. For each of the years ended December 31, 2018 and 2017, no provision for such taxes is required. The Old Globe has no unrecognized tax benefits or liabilities as of December 31, 2018 and 2017. The Old Globe files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California.

Method of accounting – The accompanying financial statements have been prepared on the accrual basis of accounting.

Net assets – Net assets are classified as with or without donor restrictions based upon the following criteria:

- Net assets without donor restrictions represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- Net assets with donor restrictions consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before The Old Globe can spend the funds or to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations.

Cash and cash equivalents – The Old Globe considers all highly-liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents held within the investment portfolio as part of The Old Globe’s investment strategy are included in investments in the statements of financial position.

Restricted cash – The Actors’ Equity Association requires The Old Globe to maintain a separate bank account to ensure payments of actors’ benefits. As of December 31, 2018 and 2017, approximately \$160,000 is held in a cash account in The Old Globe’s name, but is not available to The Old Globe unless a release is received from the Actors’ Equity Association.

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 1 – Nature of the Organization and Significant Accounting Policies (continued)

Investments – The fair value of investments in equities, corporate bond funds, government and government agency bonds, and money market funds is based on quoted prices in an active market.

The fair value of the certificate of deposit is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

The fair value of investments held by The San Diego Foundation (TSDF), for which quoted market prices are not available, is based on the unit value of The Old Globe's interest in the pools in which it is invested. The unit value is based on the fair value of the underlying assets in the pool. The pools in which The Old Globe has funds are invested primarily in domestic and international equities. Management of The Old Globe reviews and evaluates the values and methodology used to determine the fair value provided by the SDF quarterly. The Old Globe agrees with the valuation methods used at December 31, 2018 and 2017. The funds held at the SDF are not redeemable and there is no commitment to make future investments.

Donated investments are initially recorded at fair value at the date of the gift.

Investment income or loss (including interest and realized and unrealized gains and losses) is included in unrestricted revenues, unless restricted by donor or law.

Receivables – Pledges receivable that are expected to be collected in future years are recorded at fair value when the promise is made based on a discounted cash-flow model. Discounts are computed using risk-free rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions. Conditional promises to give are not recorded until the conditions are substantially met.

The Old Globe is the beneficiary of an irrevocable charitable remainder trust administered by a third party. The trust terminates upon the death of the grantor, at which time The Old Globe will receive the remaining trust assets. The fair value of the future benefits to be received by The Old Globe was determined using a discounted cash-flow model and was recorded as a contribution in the statement of activities in the year the trust was established. The fair value of the remainder interest at December 31, 2018, and 2017, is calculated using an interest rate of 4.5 percent and the life expectancy of the donor based on applicable mortality tables. The unobservable inputs used in this calculation are evaluated and adjusted annually by finance management of The Old Globe, as necessary.

Other receivables and government grant receivables are recorded when services are provided or as expenses are incurred.

An allowance for estimated uncollectible receivables is based on past experience and on an analysis of current receivable balances. Receivables are considered past due when payments are not received according to an established payment schedule. Receivables are written-off in the period deemed uncollectible. The Old Globe does not obtain collateral.

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 1 – Nature of the Organization and Significant Accounting Policies (continued)

Inventories – Inventories, which consist of gift shop items, concession foods and beverages, and stage materials, are stated at the lower of cost (first-in, first-out) or net realizable value.

Property and equipment – Property and equipment are recorded at cost if purchased or estimated fair value at the date of donation, if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which is generally 5 years for furniture, fixtures, and equipment; 25 years for building and improvements; and 25 to 50 years for leasehold improvements based on lesser of estimated useful lives or associated lease terms. It is The Old Globe's policy to capitalize property and equipment costing in excess of \$10,000.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as an increase in net assets with donor restrictions. The Old Globe reclassifies net assets with donor restrictions to net assets without donor restrictions when the related property or equipment is acquired and placed in service.

Impairment of long-lived assets – The Old Globe evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down is recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Debt issuance costs – Debt issuance costs are capitalized and amortized over the term of the related debt and are presented as a reduction of the related debt balance on the statements of financial position.

Revenue recognition

Ticket sales – Ticket sales, to the general public, are recorded as operating revenue on a specific performance basis. Ticket sales for future performances are initially deferred in the statements of financial position and are subsequently recognized as revenue when the performances take place when The Old Globe's performance obligation is completed.

Enhancements – Enhancements represent funds received from others to expand budgets for specific productions. Revenue is recognized when the performance obligations present in the associated agreements are completed, which is generally when the related performance is performed.

Retail – Retail sales, to the general public, represent revenue earned at the gift shop and pub. Revenue is recognized at the time of sale when The Old Globe's performance obligation is completed.

Royalties – Royalties represent revenue earned under agreements with other performing-arts-related entities for the use of specific productions created by The Old Globe. Revenue is recognized as others perform the productions as The Old Globe's performance obligation for the provision of the rights to use of its production is completed.

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 1 – Nature of the Organization and Significant Accounting Policies (continued)

Education – Education revenue represents fees charged for educational programs and is recognized at the time the programs are offered at which time The Old Globe's performance obligation is completed.

Rental income – Rental income represents revenue earned from a 501(c)(3) tenant at Market Street property and production rentals. Revenue is recognized from Market Street property in the month the rental payment is applicable and at the time of rental for production rentals which is at the completion of The Old Globe's performance obligations.

Contributions – Contributions are recognized as revenue when received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as net assets with donor restrictions. When a donor 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

Special events – Special events revenue is generated from sponsorships, ticket sales, and sale of items at events held during the year and are recognized when the events occur which is the completion of The Old Globe's performance obligation.

Government grants – Revenue from grants, depending on the terms of the grants, is recognized when an unconditional promise to give has been made to The Old Globe or to the extent of eligible costs incurred, up to the maximum grant amount at which time The Old Globe has completed its performance obligation.

In-kind contributions – The value of services, facilities, and non-capitalized equipment donated is recorded as contributions with or without donor restrictions and expensed in the year donated. These contributions are valued at the estimated fair value of similar services and materials. Donated assets are capitalized at fair value at the date of donation and recorded as in-kind contributions with or without donor restrictions, depending on the wishes of the donor. The Old Globe receives donated services from a variety of unpaid volunteers assisting in the operations of The Old Globe which have not been recognized in the accompanying financial statements because the criteria for recognition under generally accepted accounting principles have not been satisfied.

Marketing and production costs – Costs of marketing (which includes advertising), scenery, costumes, and stage properties are recorded as expenses in the year the related production is first performed. Marketing and production costs relating to future performances are deferred and included in prepaid expenses in the statements of financial position until the production is presented. Total advertising costs for the years ended December 31, 2018 and 2017, were approximately \$796,000 and \$749,000, respectively.

Functional allocation of expenses – The costs of providing the programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation, interest and facilities costs are allocated to functional categories based on square footage dedicated to the specific function. Labor is allocated to functional categories based on time spent on activities within each function.

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 1 – Nature of the Organization and Significant Accounting Policies (continued)

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

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued. The Old Globe recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Old Globe's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date, and before the financial statements are available to be issued. The Old Globe has evaluated subsequent events through March 27, 2019, which is the date the financial statements were available to be issued.

Recently adopted accounting standards – For the year ended December 31, 2018, The Old Globe adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement for Not-for-Profit Entities*. This guidance revises the not-for-profit reporting model and requires expenses to be disclosed by both functional and natural classification, reduces the net asset classifications to two (with and without donor restrictions), and requires new disclosures on liquidity.

A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 is presented below:

Net asset classifications	Without donor restrictions	With donor restrictions	Total net assets
Net assets at December 31, 2016, as previously presented:			
Unrestricted	\$ 9,159,912	\$ -	\$ 9,159,912
Temporarily restricted	-	29,291,792	29,291,792
Permanently restricted	-	11,432,628	11,432,628
Net assets as previously presented	9,159,912	40,724,420	49,884,332
Reclassifications to implement ASU 2016-14:			
Capital gifts temporarily restricted for property	13,118,925	(13,118,925)	-
Net assets at December 31, 2016, as restated	22,278,837	27,605,495	49,884,332
Change in net assets, as previously presented	(166,500)	(935,216)	(1,101,716)
Impact of implementation of ASU 2016-14:			
Reversal of release from restricted gifts for property	(800,429)	800,429	-
Net assets at December 31, 2017, as restated	\$ 21,311,908	\$ 27,470,708	\$ 48,782,616

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 1 – Nature of the Organization and Significant Accounting Policies (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) and issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) in June 2018. These standards replace existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. These standards become effective for annual reporting periods beginning after December 15, 2018 for non-public entities. On January 1, 2018, The Old Globe early adopted ASU 2014-09, using the modified retrospective method applied to all contracts, and ASU 2018-08.

Note 2 – Concentrations

Financial instruments that potentially subject The Old Globe to concentrations of credit risk consist principally of cash deposits at financial institutions and investments. At times, balances in The Old Globe's cash and investment accounts exceed the Federal Deposit Insurance Corporation or Securities Investors Protection Corporation insurance limits. The Old Globe has not experienced any losses in such accounts.

As of December 31, 2018 and 2017, approximately 70 percent and 79 percent, respectively, of non-endowment pledges receivable is due from three donors. For both of the years ended December 31, 2018 and 2017, approximately 99 percent of endowment pledges receivable is due from one and two donors, respectively.

Investments are exposed to various risks such as interest rates, market, and credit risk. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near term could materially affect the amounts reported in the financial statements. Consequently, the fair value of The Old Globe's investments is exposed to market volatility which could result in a reduction in the future fair value of certain investments from the amounts reported as of December 31, 2018.

Note 3 – Investments

Investments at December 31, 2018 and 2017, are comprised of the following:

	2018	2017
Certificate of deposit	\$ 512,818	\$ 506,365
Domestic and international equities	338,110	385,020
Fixed income – corporate bond funds	191,209	234,547
Money market funds	17,352	18,262
Cash and cash equivalents	3,449	5,259
	1,062,938	1,149,453
Accumulated endowment earnings	1,395,568	2,074,995
Total	\$ 2,458,506	\$ 3,224,448

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 3 – Investments (continued)

Endowment investments for which the corpus is restricted at December 31, 2018 and 2017, are comprised of the following:

	<u>2018</u>	<u>2017</u>
Equities:		
Domestic large cap growth	\$ 2,442,038	\$ 352,288
International non-emerging markets	890,415	1,027,141
Domestic small cap	435,041	-
International real estate	274,978	-
Other domestic equities	236,971	172,104
International emerging markets	220,836	159,233
Domestic large cap blend	-	558,541
Domestic large cap value	-	383,434
Domestic small cap value	-	135,656
Domestic small cap growth	-	59,070
Fixed income:		
Corporate bond funds	2,350,262	2,299,364
Government and government agency bonds	421,028	399,583
Money market funds	57,125	44,431
Cash and cash equivalents	3,150	9,627
Funds held by The San Diego Foundation	146,167	162,718
	<u>7,478,011</u>	<u>5,763,190</u>
Accumulated endowment earnings	<u>(1,395,568)</u>	<u>(2,074,995)</u>
	<u>\$ 6,082,443</u>	<u>\$ 3,688,195</u>
Total	<u>\$ 6,082,443</u>	<u>\$ 3,688,195</u>

Note 4 – Receivables

Receivables at December 31, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Pledges receivable	\$ 8,337,017	\$ 7,533,224
Charitable remainder trust	712,777	712,777
	<u>9,049,794</u>	<u>8,246,001</u>
Other receivables	451,596	191,489
Government grants	311,689	159,351
	<u>9,813,079</u>	<u>8,596,841</u>
Total	<u>\$ 9,813,079</u>	<u>\$ 8,596,841</u>

Old Globe Theatre dba The Old Globe
Notes to Financial Statements

Note 4 – Receivables (continued)

Pledges receivable and charitable remainder trust included in receivables at December 31, 2018 and 2017, are due as follows:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 1,352,687	\$ 1,600,240
Due in one to five years	4,804,667	3,492,500
Due in more than five years	<u>4,570,000</u>	<u>4,850,000</u>
Total unconditional promises to give	10,727,354	9,942,740
Less allowance for uncollectible receivables	(800,000)	(700,000)
Less discount to net present value ^(a)	<u>(877,560)</u>	<u>(996,739)</u>
 Net unconditional promises to give	 <u><u>\$ 9,049,794</u></u>	 <u><u>\$ 8,246,001</u></u>

Endowment assets – pledges receivable at December 31, 2018 and 2017, are due as follows:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 2,400	\$ -
Due in one to five years	-	2,000,000
Due in more than five years	<u>14,149,000</u>	<u>14,149,000</u>
Total unconditional promises to give	14,151,400	16,149,000
Less allowance for uncollectible receivables	(1,400,000)	(1,400,000)
Less discount to net present value ^(a)	<u>(6,231,047)</u>	<u>(6,369,687)</u>
 Net unconditional promises to give	 <u><u>\$ 6,520,353</u></u>	 <u><u>\$ 8,379,313</u></u>

^{a)} Pledges receivable due in more than one year have been discounted to their net present value using rates of 1.94 to 4.5 percent.

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 5 – Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

See Note 1 for the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. See Note 3 for investments and endowment investments by class.

The following fair value hierarchy table presents information about each major category of The Old Globe's financial assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	Fair Value Measurements			2018 Total
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investments ^(a)	\$ 550,120	\$ 512,818	\$ -	\$ 1,062,938
Endowment investments ^(a)	7,331,844	-	146,167	7,478,011
Charitable remainder trust	-	-	712,777	712,777
	<u>\$ 7,881,964</u>	<u>\$ 512,818</u>	<u>\$ 858,944</u>	<u>\$ 9,253,726</u>
	Fair Value Measurements			2017 Total
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investments ^(a)	\$ 643,088	\$ 506,365	\$ -	\$ 1,149,453
Endowment investments ^(a)	5,600,472	-	162,718	5,763,190
Charitable remainder trust	-	-	712,777	712,777
	<u>\$ 6,243,560</u>	<u>\$ 506,365</u>	<u>\$ 875,495</u>	<u>\$ 7,625,420</u>

^(a) Investments exclude accumulated endowment earnings and endowment investments include accumulated endowment earnings in the fair value measurements table.

Old Globe Theatre dba The Old Globe
Notes to Financial Statements

Note 5 – Fair Value Measurements (continued)

Changes in the fair value of The Old Globe’s Level 3 assets for the years ended December 31, 2018 and 2017, are as follows:

	Charitable Remainder Trust	Investments Held by SDF	Total
Balance, January 1, 2017	\$ 787,189	\$ 148,577	\$ 935,766
Interest and dividends	-	7,596	7,596
Distributions	-	(7,596)	(7,596)
Unrealized gains	-	14,141	14,141
Change in value of charitable remainder trust	<u>(74,412)</u>	<u>-</u>	<u>(74,412)</u>
Balance, December 31, 2017	712,777	162,718	875,495
Interest and dividends	-	7,662	7,662
Distributions	-	(7,662)	(7,662)
Unrealized losses	-	(16,551)	(16,551)
Change in value of charitable remainder trust	<u>-</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2018	<u>\$ 712,777</u>	<u>\$ 146,167</u>	<u>\$ 858,944</u>

The change in value of the charitable remainder trust is included in the statement of activities as a component of contributions. The unrealized gains on investments held by the SDF are included as a component of the change in net assets with donor restrictions. The change in value and the unrealized gains for 2017 relate to Level 3 assets still held at December 31, 2018.

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Notes to Financial Statements

Note 6 – Property and Equipment

Property and equipment at December 31, 2018 and 2017, are comprised of the following:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 34,245,994	\$ 34,109,968
Furniture, fixtures, and equipment	5,912,805	5,378,242
Building and improvements	5,426,173	5,413,313
Land	1,750,000	1,750,000
Construction-in-progress	42,920	75,251
	<u>47,377,892</u>	<u>46,726,774</u>
Less accumulated depreciation	<u>(23,784,104)</u>	<u>(22,196,914)</u>
Total	<u>\$ 23,593,788</u>	<u>\$ 24,529,860</u>

Note 7 – Debt

In August 2010, The Old Globe issued tax-exempt bonds for \$3,802,430. The bonds were purchased by a bank who is the sole bondholder. Proceeds from the bonds were used to repay existing notes payable. The bonds bear interest at 3.850 percent with monthly principal and interest payments of \$22,659. The bonds mature on September 1, 2030, and are collateralized by first deeds of trust on property. The balance outstanding as of December 31, 2018 and 2017, is \$2,551,961 and \$2,722,078, respectively, and is shown net of debt issuance costs of \$51,275 and \$55,670, respectively, on the accompanying statements of financial position. Debt issuance costs are amortized over the life of the bonds.

The Old Globe had an unsecured, non-interest-bearing note payable to the City of San Diego as successor agency to the Redevelopment Agency of the City of San Diego for an amount due in lieu of property taxes on a building purchased in 2007. The note was paid off in 2017 in advance of the maturity date.

Principal payments on debt are due as follows:

<u>Years Ending December 31,</u>	
2019	\$ 176,201
2020	182,850
2021	190,271
2022	197,727
2023	205,476
Thereafter	<u>1,599,436</u>
Total	<u>\$ 2,551,961</u>

Interest expense totaled approximately \$102,000 and \$108,000 for the years ended December 31, 2018 and 2017, respectively.

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 8 – Deferred Revenue

Included in deferred revenue on the accompanying statements of financial position are amounts related to future performance obligations under contracts including tickets sold in advance of the related performance and amounts received under enhancement agreements not yet earned. The following table summarizes activity for each type of deferred revenue.

	Balance at December 31, 2017	Funds received in advance of performance	Revenue recognized included in December 31, 2017 balance	Balance at December 31, 2018
Deferred ticket sales	\$ 3,434,607	\$ 3,047,831	\$ (2,973,410)	\$ 3,509,028
	Balance at December 31, 2017	Funds received in advance of expenditure	Revenue recognized included in December 31, 2017 balance	Balance at December 31, 2018
Deferred enhancement funds	\$ -	\$ 821,973	\$ -	\$ 821,973

Note 9 – Commitments and Contingencies

Leases – The Old Globe’s facilities are on land leased from the City of San Diego and The Old Globe also leases rehearsal space from the City of San Diego. The leases expire in August 2029 and 2026, respectively. In lieu of rental payments, The Old Globe is obligated to conduct a minimum number of specific theatrical performances annually. As The Old Globe is required to conduct these performances in connection with the leases, no amount is recorded in the accompanying financial statements for an estimated fair value of the leases.

Benefit plan – The Old Globe offers a 401(k) plan which is available to eligible employees with an employer contribution of three percent of annual eligible compensation. Contributions totaling approximately \$198,000 and \$185,000 were made by The Old Globe during the years ended December 31, 2018 and 2017, respectively.

Legal matters – The Old Globe is involved in legal matters in the ordinary course of business. Management is not aware of any legal matters that could have a material adverse impact on The Old Globe’s current financial position.

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Notes to Financial Statements

Note 10 – Globe Guilders

The Old Globe is supported, in part, by the Globe Guilders (the “Guilders”), a volunteer service organization. The Guilders raise money and provide volunteer services to The Old Globe throughout the year. The Guilders’ annual fundraising goal, which is set in conjunction with management, is included in the operating budget of The Old Globe. The Guilders contributed approximately \$301,000 and \$302,000 to The Old Globe for the years ended December 31, 2018 and 2017, respectively.

Note 11 – Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 and 2017 are comprised of:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Future seasons (bridge)	\$ 3,673,191	\$ 4,173,191
James Irvine Foundation grant - arts engagement	1,939,949	760,000
General operating expenses, including artistic and educational outreach	142,158	276,637
Subject to the passage of time:		
Pledges receivable and charitable remainder trust	7,712,153	8,118,377
Subject to The Old Globe spending policy and appropriation:		
Investment in perpetuity (including amounts above original gift amounts) which, once appropriated, is expendable to support:		
General operating expenses, including artistic and educational outreach	13,833,815	13,961,903
Theatre programs held by The San Diego Foundation	146,167	162,718
Pagliotti Fund	<u>18,382</u>	<u>17,882</u>
	<u>\$ 27,465,815</u>	<u>\$ 27,470,708</u>

The Board of Directors of The Old Globe (the “Board”) has interpreted California’s enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, The Old Globe classifies as net assets with donor restrictions to be held in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Also included in the donor-restricted endowment fund are amounts in excess of the original gift amounts that have not yet been appropriated for expenditure by The Old Globe in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Notes to Financial Statements

Note 11 – Net Assets with Donor Restrictions (continued)

Endowment investments held by TSDF are managed in accordance with UPMIFA. The Old Globe classifies as net assets with donor restrictions to be held in perpetuity investments held by TSDF consistently with (a) through (c) above and also classifies as net assets with donor restrictions to be held in perpetuity realized and unrealized gains and losses on these investments in excess of amounts appropriated for expenditure.

Endowment assets managed by The Old Globe (held and administered by Goldman Sachs) – In accordance with UPMIFA, The Old Globe considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The mission of The Old Globe and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of The Old Globe; and
- The investment policies of The Old Globe.

In order to meet its needs, the investment strategy of The Old Globe is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management of the endowment assets is to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

The Old Globe has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs. The overriding objective of this endowment is to grow the aggregate portfolio value at the rate of inflation over the endowment's investment horizon.

Endowment earnings are undesignated, allowing The Old Globe to use it to support artistic and educational projects and general operations. The Board approved a spending policy for the use of the earnings on endowment investments which states that a maximum of up to 5 percent (4 percent in 2018 and 2017) of the trailing three-year average market value of the investments is available for use in operations, unless otherwise restricted.

Investments held by the SDF – The Old Globe established a charitable endowment fund with the SDF, an unrelated not-for-profit corporation. The SDF has the contractual right to make all decisions regarding the investment of the funds held and to determine the distribution rate. Endowment investments held by the SDF are invested in a "Balanced Pool" portfolio, which is structured for long-term total return. To provide diversification and to moderate risk, the investments are divided into carefully defined asset classes. The SDF's spending policy is to disburse five percent annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the fair value of the endowment principal of any fund at the end of each month is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received.

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Notes to Financial Statements

Note 11 – Net Assets with Donor Restrictions (continued)

The net asset composition of board-designated (without donor restrictions) and donor-restricted endowments at December 31, 2018 and 2017 is as follows:

	Without Donor Restrictions	With Donor Restrictions			2018 Total
		Accumulated Endowment Earnings	Original Gift Amount	Total With Donor Restrictions	
Board-designated endowment funds	\$ 378,773	\$ -	\$ -	\$ -	\$ 378,773
Donor-restricted endowment funds					
Donor corpus restricted in perpetuity	-	-	6,082,443	6,082,443	6,082,443
Unappropriated endowment earnings	-	1,395,568	-	1,395,568	1,395,568
Pledges receivable	-	-	6,520,353	6,520,353	6,520,353
Total	\$ 378,773	\$ 1,395,568	\$ 12,602,796	\$ 13,998,364	\$ 14,377,137

	Without Donor Restrictions	With Donor Restrictions			2017 Total
		Accumulated Endowment Earnings	Original Gift Amount	Total With Donor Restrictions	
Board-designated endowment funds	\$ 378,773	\$ -	\$ -	\$ -	\$ 378,773
Donor-restricted endowment funds					
Donor corpus restricted in perpetuity	-	-	3,688,195	3,688,195	3,688,195
Unappropriated endowment earnings	-	2,074,995	-	2,074,995	2,074,995
Pledges receivable	-	-	8,379,313	8,379,313	8,379,313
Total	\$ 378,773	\$ 2,074,995	\$ 12,067,508	\$ 14,142,503	\$ 14,521,276

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions			Total
		Accumulated Endowment Earnings	Original Gift Amount	Total With Donor Restrictions	
Endowment net assets January 1, 2017	\$ 378,773	\$ 1,723,586	\$ 11,432,628	\$ 13,156,214	\$ 13,534,987
Contributions	-	-	620,739	620,739	620,739
Investment income:					
Interest income	-	142,819	-	142,819	142,819
Realized and unrealized gains	-	470,273	14,141	484,414	484,414
Appropriated earnings	-	(261,683)	-	(261,683)	(261,683)
Endowment net assets December 31, 2017	378,773	2,074,995	12,067,508	14,142,503	14,521,276
Contributions	-	-	551,839	551,839	551,839
Investment income:					
Interest income	-	209,346	-	209,346	209,346
Realized and unrealized (losses)	-	(620,700)	(16,551)	(637,251)	(637,251)
Appropriated earnings	-	(268,073)	-	(268,073)	(268,073)
Endowment net assets December 31, 2018	\$ 378,773	\$ 1,395,568	\$ 12,602,796	\$ 13,998,364	\$ 14,377,137

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Notes to Financial Statements

Note 11 – Net Assets with Donor Restrictions (continued)

During the years ended December 31, 2018 and 2017, net assets were released from net assets with donor restrictions by incurring expenditures satisfying the restricted purposes and satisfying time restrictions in the amount of \$2,511,278 and \$3,660,321, respectively.

Note 12 – Government Grants

Income from government grants on the accompanying statement of activities for the years ending December 31, 2018 and 2017, is comprised of the following:

	<u>2018</u>	<u>2017</u>
City of San Diego	\$ 483,270	\$ 537,105
National Endowment for the Arts	40,000	64,700
California State Arts Council	36,370	32,740
County of San Diego	25,000	21,000
Local government grants	2,000	2,182
CA Dept. of Corrections and Rehabilitation	-	14,761
	<u> </u>	<u> </u>
Total	<u>\$ 586,640</u>	<u>\$ 672,488</u>

The Old Globe's grants with government agencies are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from such audits would not be material.

Note 13 – Collective Bargaining Agreement

Substantially, all actors employed by The Old Globe are subject to a collective bargaining agreement with the Actors' Equity Association which expires February 13, 2022.

Note 14 – Related Parties

Certain members of the Board are employed at banks that have provided financing to The Old Globe (Note 7) and in which The Old Globe maintains cash and investment accounts.

Contributions in the accompanying statements of activities for the years ended December 31, 2018 and 2017, include approximately \$2,272,000 and \$3,466,000, respectively, received from members of the Board. Receivables on the accompanying statements of financial position as of December 31, 2018 and 2017, include approximately \$4,664,000 and \$6,440,000, respectively, of pledges receivable due from members of the Board.

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Notes to Financial Statements

Note 15 – Liquidity

The Old Globe is supported primarily by ticket sales revenue and contributions. Because donor restrictions may require resources to be used in a particular manner or in a future period, financial assets may not be available for general expenditures within one year. The Old Globe structures its financial assets to be available as general expenditures, liabilities, and other obligations become due. In addition, The Old Globe invests cash in excess of immediate requirements in short-term investments.

The following table reflects The Old Globe's financial assets, excluding endowment assets, as of December 31, 2018, reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions within one year. Amounts not available include pledges receivable due in more than one year, cash on hand restricted to support for future seasons, accumulated earnings on endowment funds included in investments, cash and pledges receivable with purpose or time restrictions imposed by donors, and amounts set aside for long-term investing in board-designated endowment funds that could be drawn only upon the approval of the Board of Directors. However, amounts appropriated for expenditure from the donor-restricted accumulated earnings on the endowment within one year of December 31, 2018 are considered available.

Cash and cash equivalents	\$ 7,872,470
Investments	2,458,506
Receivables, net	<u>9,813,079</u>
 Total financial assets	 20,144,055
 Restricted cash – Actors' Equity Association	 (160,000)
Board-designated endowment fund included in investments	(378,773)
Accumulated earnings on endowment included in investments	(1,395,568)
Board approved 2019 appropriation of accumulated earnings on endowment	305,000
Assets restricted for specified purpose or passage of time	<u>(13,467,451)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u><u>\$ 5,047,263</u></u>

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Notes to Financial Statements

Note 16 – Classification of Expenses

The following reflects the classification of The Old Globe’s expenses by both the underlying nature of the expense and the function, for the year ended December 31, 2018. An individual expense is allocated to the underlying activity to which it was incurred. The statement of activities includes certain expenses which must be allocated on a reasonable basis which has been consistently applied; see methodology in Note 1.

	Supporting Services				Total Supporting Services	Total
	Program Services	Management and General	Fundraising	Special Events		
Salaries and Related Expenses						
Salaries and wages	\$ 10,748,678	\$ 1,340,843	\$ 1,254,875	\$ 23,019	\$ 2,618,737	\$ 13,367,415
Other employee benefits	1,052,739	115,965	103,675	3,657	223,297	1,276,036
Payroll taxes	992,879	100,036	90,376	2,498	192,910	1,185,789
Pension plan expenses	665,234	26,931	29,559	3,708	60,198	725,432
Total	<u>13,459,530</u>	<u>1,583,775</u>	<u>1,478,485</u>	<u>32,882</u>	<u>3,095,142</u>	<u>16,554,672</u>
Operating Expenses						
Fees for services	1,398,709	60,525	11,540	32,610	104,675	1,503,384
Production expenses	1,154,208	-	-	-	-	1,154,208
Office expenses	837,399	51,028	46,861	5,637	103,526	940,925
Advertising	771,675	836	840	22,976	24,652	796,327
Insurance	620,569	141,063	14,317	-	155,380	775,949
Royalties	732,249	-	-	-	-	732,249
Event expenses	-	-	321,662	327,277	648,939	648,939
Miscellaneous	69,872	58,858	160,974	-	219,832	289,704
Occupancy	453,868	76,324	-	-	76,324	530,192
Electronics/sound	498,226	-	-	-	-	498,226
Bank charges	-	483,657	2,237	-	485,894	485,894
Housing	476,471	-	-	-	-	476,471
In-kind	308,023	14,835	39,506	45,000	99,341	407,364
Travel	347,176	18,008	6,675	-	24,683	371,859
Pre-production expenses	347,911	-	-	-	-	347,911
Information technology	15,170	279,056	-	-	279,056	294,226
Maintenance	219,497	48,527	-	-	48,527	268,024
Marketing	245,348	-	-	-	-	245,348
Accounting	-	206,656	-	-	206,656	206,656
Fellowships	123,400	-	-	-	-	123,400
Interest	101,796	-	-	-	-	101,796
Legal	19,857	16,194	-	-	16,194	36,051
Conferences	7,425	13,726	4,395	-	18,121	25,546
Total	<u>8,748,849</u>	<u>1,469,293</u>	<u>609,007</u>	<u>433,500</u>	<u>2,511,800</u>	<u>11,260,649</u>
Depreciation and amortization	1,290,019	301,566	-	-	301,566	1,591,585
Total	<u>\$ 23,498,398</u>	<u>\$ 3,354,634</u>	<u>\$ 2,087,492</u>	<u>\$ 466,382</u>	<u>\$ 5,908,508</u>	<u>\$ 29,406,906</u>

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Notes to Financial Statements

Note 17 – Schedule to Reconcile to Internal Financial Statements

	<u>2018</u>
Change in net assets without donor restrictions	\$ (761,595)
Depreciation on property and equipment	1,587,190
Acquisition of property and equipment	(651,118)
Payment on long-term debt	<u>(170,117)</u>
Change in undesignated net assets without donor restrictions	4,360
Net realized/unrealized losses on investments included in above	<u>36,713</u>
Change in undesignated net assets without donor restrictions net of net realized/unrealized losses on investments	<u><u>\$ 41,073</u></u>