

PENNSYLVANIA SHAKESPEARE FESTIVAL

**Financial Statements
and Independent Auditor's Report**

September 30, 2019 and 2018

**PENNSYLVANIA SHAKESPEARE FESTIVAL
TABLE OF CONTENTS**

	Page(s)
Independent Auditor's Report	1 - 2
 <u><i>Financial Statements:</i></u>	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 22

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pennsylvania Shakespeare Festival
Center Valley, PA

We have audited the accompanying financial statements of Pennsylvania Shakespeare Festival (a not-for-profit corporation), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Shakespeare Festival as of September 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.

Congbell, Rappold & Yamasita LLP

February 26, 2020

PENNSYLVANIA SHAKESPEARE FESTIVAL
STATEMENTS OF FINANCIAL POSITION
As of September 30, 2019 and 2018

ASSETS

Current Assets	2019	2018
Cash and Cash Equivalents	\$ 549,508	\$ 466,913
Accounts Receivable	36,360	20,860
Contributions Receivable (Note 3)	71,785	121,130
Deferred Expenses	3,660	-
Deferred Expenses - Education	69,495	70,756
Due from DeSales University	4,016	59,131
Inventory	3,770	2,777
	<hr/>	<hr/>
Total Current Assets	738,594	741,567
Investments and Other Assets		
Contributions Receivable - Long-term (Note 3)	100,486	149,397
Property and Equipment, Net (Note 4)	83,760	103,344
Investments - Long-term (Note 5)	5,589,933	5,666,903
	<hr/>	<hr/>
Total Assets	<u>\$ 6,512,773</u>	<u>\$ 6,661,211</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 16,295	\$ 18,749
Deferred Revenue - Education	63,235	68,242
	<hr/>	<hr/>
Total Current Liabilities	79,530	86,991
Total Liabilities	<hr/>	<hr/>
	79,530	86,991
Net Assets (Notes 2 and 8)		
Net Assets Without Donor Restrictions		
Undesignated	502,089	485,791
Designated for Endowment	429,158	409,468
	<hr/>	<hr/>
	931,247	895,259
Net Assets With Donor Restrictions	<hr/>	<hr/>
	5,501,996	5,678,961
Total Net Assets	<hr/>	<hr/>
	6,433,243	6,574,220
Total Liabilities and Net Assets	<u>\$ 6,512,773</u>	<u>\$ 6,661,211</u>

See independent auditor's report and notes to financial statements.

PENNSYLVANIA SHAKESPEARE FESTIVAL
STATEMENT OF ACTIVITIES
Year Ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>
Revenues, Gains, and Other Support			
Contributions	\$ 392,411	\$ -	\$ 392,411
Contributions - Campaign	-	10,956	10,956
Government Grants	23,048	-	23,048
Donated Facilities (Note 6)	368,318	-	368,318
Donated Services and Equipment	52,953	-	52,953
Donated Wages, Taxes and Benefits (Note 6)	315,862	-	315,862
Ticket Sales	1,022,763	-	1,022,763
Concessions	49,403	-	49,403
Advertising	29,793	-	29,793
Interest Income	481	-	481
Gross Special Events Revenue	235,439	-	235,439
Less Special Events Expense	<u>(93,796)</u>	<u>-</u>	<u>(93,796)</u>
Net Special Events Revenue	141,643	-	141,643
Endowment Income	198,900	39,200	238,100
Education #19 Program Income	123,052	-	123,052
Net Assets Released from Restrictions - Education #19	40,000	(40,000)	-
Net Assets Released from Restrictions	<u>45,864</u>	<u>(45,864)</u>	<u>-</u>
Total Operating Revenues	<u>2,804,491</u>	<u>(35,708)</u>	<u>2,768,783</u>
Expenses			
Program Services:			
Festival	2,016,613	-	2,016,613
Education	188,822	-	188,822
Concessions	<u>34,398</u>	<u>-</u>	<u>34,398</u>
	2,239,833	-	2,239,833
Supporting Services:			
Management and General	311,813	-	311,813
Fund Raising	<u>208,547</u>	<u>-</u>	<u>208,547</u>
Total Operating Expenses	<u>2,760,193</u>	<u>-</u>	<u>2,760,193</u>
Change in Net Assets from Operating Activities	<u>44,298</u>	<u>(35,708)</u>	<u>8,590</u>
Nonoperating Activities			
Contributions - Campaign	-	7,802	7,802
Loss on Contribution Receivable Write-off	-	(11,900)	(11,900)
Endowment Earnings Less Than			
Endowment Spending Policy	(1,180)	(10,035)	(11,215)
Unrealized Loss on Investments	<u>(7,130)</u>	<u>(127,124)</u>	<u>(134,254)</u>
Change in Net Assets from Nonoperating Activities	<u>(8,310)</u>	<u>(141,257)</u>	<u>(149,567)</u>
Total Change in Net Assets	35,988	(176,965)	(140,977)
Net Assets at Beginning of Year	<u>895,259</u>	<u>5,678,961</u>	<u>6,574,220</u>
Net Assets at End of Year	<u><u>\$ 931,247</u></u>	<u><u>\$ 5,501,996</u></u>	<u><u>\$ 6,433,243</u></u>

See independent auditor's report and notes to financial statements.

PENNSYLVANIA SHAKESPEARE FESTIVAL
STATEMENT OF ACTIVITIES
Year Ended September 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Total
Revenues, Gains, and Other Support			
Contributions	\$ 309,277	\$ -	\$ 309,277
Contributions - Campaign	-	19,638	19,638
Government Grants	37,798	-	37,798
Donated Facilities (Note 6)	393,235	-	393,235
Donated Services and Equipment	63,710	-	63,710
Donated Wages, Taxes and Benefits (Note 6)	327,114	-	327,114
Ticket Sales	1,072,159	-	1,072,159
Concessions	53,638	-	53,638
Advertising	35,928	-	35,928
Interest Income	374	-	374
 Gross Special Events Revenue	 230,012	 -	 230,012
Less Special Events Expense	(102,024)	-	(102,024)
Net Special Events Revenue	127,988	-	127,988
 Endowment Income	 196,800	 50,000	 246,800
Education #18 Program Income	120,395	-	120,395
Net Assets Released from Restrictions - Education #18	39,400	(39,400)	-
Net Assets Released from Restrictions	137,055	(137,055)	-
 Total Operating Revenues	 2,914,871	 (106,817)	 2,808,054
 Expenses			
Program Services:			
Festival	2,166,591	-	2,166,591
Education	197,895	-	197,895
Concessions	35,768	-	35,768
	2,400,254	-	2,400,254
Supporting Services:			
Management and General	288,497	-	288,497
Fund Raising	197,940	-	197,940
 Total Operating Expenses	 2,886,691	 -	 2,886,691
 Change in Net Assets from Operating Activities	 28,180	 (106,817)	 (78,637)
 Nonoperating Activities			
Contributions - Campaign	-	9,420	9,420
Endowment Earnings Greater (Less) Than Endowment Spending Policy	2,224	(6,738)	(4,514)
Unrealized Gain on Investments	21,161	145,019	166,180
 Change in Net Assets from Nonoperating Activities	 23,385	 147,701	 171,086
 Total Change in Net Assets	 51,565	 40,884	 92,449
 Net Assets at Beginning of Year	 843,694	 5,638,077	 6,481,771
 Net Assets at End of Year	 \$ 895,259	 \$ 5,678,961	 \$ 6,574,220

See independent auditor's report and notes to financial statements.

**PENNSYLVANIA SHAKESPEARE FESTIVAL
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2019**

	Program				Management and General	Fund Raising	2019	
	Festival	Education	Concessions	Total				
Wages and Subcontracts	\$ 895,453	\$ 108,955	\$ -	\$ 1,004,408	\$ 123,851	\$ 143,526	\$ 1,271,785	(1)
Health and Retirement Benefits	176,715	11,807	-	188,522	30,581	33,136	252,239	(2)
Payroll Taxes	66,439	10,918	-	77,357	8,894	10,762	97,013	(3)
Total Salaries and Related Expenses	1,138,607	131,680	-	1,270,287	163,326	187,424	1,621,037	
Professional Fees	9,045	-	-	9,045	9,045	-	18,090	(4)
Supplies	-	-	-	-	10,017	390	10,407	
Cultivation	-	-	-	-	-	9,826	9,826	
Telephone	1,528	1,997	-	3,525	764	764	5,053	
Postage and Shipping	8,185	-	-	8,185	4,693	1,561	14,439	
Occupancy	80,000	-	-	80,000	44,400	-	124,400	(5)
Equipment Rental and Maintenance	-	-	-	-	4,484	-	4,484	
Printing and Publications	45,896	-	-	45,896	-	8,157	54,053	
Travel	24,938	7,118	-	32,056	2,237	360	34,653	
Conferences, Conventions and Meetings	-	-	-	-	20,778	-	20,778	
Administration Professional Development and Research	-	-	-	-	2,606	-	2,606	
Insurance	-	650	-	650	8,630	-	9,280	
Promotion and Advertising	155,055	5,333	-	160,388	-	65	160,453	(6)
Auditions	23,805	879	-	24,684	-	-	24,684	
Production Costs	529,554	41,165	-	570,719	-	-	570,719	(7)
Refreshments and Dinners	-	-	25,026	25,026	-	-	25,026	
Products	-	-	9,372	9,372	-	-	9,372	
Miscellaneous	-	-	-	-	10,608	-	10,608	
Total Expenses Before Depreciation	2,016,613	188,822	34,398	2,239,833	281,588	208,547	2,729,968	
Depreciation of Equipment	-	-	-	-	30,225	-	30,225	
TOTAL EXPENSES	\$ 2,016,613	\$ 188,822	\$ 34,398	\$ 2,239,833	\$ 311,813	\$ 208,547	\$ 2,760,193	

The following amounts are the value of in-kind gifts to the Organization, which are included in the above expenses:	\$ 243,387	(1)
	53,272	(2)
	19,203	(3)
	6,000	(4)
	124,400	(5)
	46,953	(6)
	<u>243,918</u>	(7)
	<u>\$ 737,133</u>	

See independent auditor's report and notes to financial statements.

**PENNSYLVANIA SHAKESPEARE FESTIVAL
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2018**

	Program				Management and General	Fund Raising	2018	
	Festival	Education	Concessions	Total				
Wages and Subcontracts	\$ 958,847	\$ 114,718	\$ -	\$ 1,073,565	\$ 125,926	\$ 126,475	\$ 1,325,966	(1)
Health and Retirement Benefits	192,945	16,317	-	209,262	18,462	37,132	264,856	(2)
Payroll Taxes	67,080	11,180	-	78,260	8,518	10,497	97,275	(3)
Total Salaries and Related Expenses	1,218,872	142,215	-	1,361,087	152,906	174,104	1,688,097	
Professional Fees	9,528	-	-	9,528	9,527	-	19,055	(4)
Supplies	-	-	-	-	11,284	36	11,320	
Cultivation	-	-	-	-	-	13,908	13,908	
Telephone	1,424	1,800	-	3,224	712	712	4,648	
Postage and Shipping	8,221	-	-	8,221	5,834	1,777	15,832	
Occupancy	78,000	-	-	78,000	43,200	-	121,200	(5)
Equipment Rental and Maintenance	-	-	-	-	4,549	-	4,549	
Printing and Publications	47,622	-	-	47,622	-	6,855	54,477	
Travel	27,725	12,392	-	40,117	2,745	289	43,151	
Conferences, Conventions and Meetings	-	-	-	-	13,148	-	13,148	
Administration Professional Development and Research	-	-	-	-	1,720	-	1,720	
Insurance	-	735	-	735	9,797	-	10,532	
Promotion and Advertising	177,893	3,613	-	181,506	-	259	181,765	(6)
Auditions	24,362	692	-	25,054	-	-	25,054	
Production Costs	572,944	36,448	-	609,392	-	-	609,392	(7)
Refreshments and Dinners	-	-	26,588	26,588	-	-	26,588	
Products	-	-	9,180	9,180	-	-	9,180	
Miscellaneous	-	-	-	-	8,415	-	8,415	
Total Expenses Before Depreciation	2,166,591	197,895	35,768	2,400,254	263,837	197,940	2,862,031	
Depreciation of Equipment	-	-	-	-	24,660	-	24,660	
TOTAL EXPENSES	\$ 2,166,591	\$ 197,895	\$ 35,768	\$ 2,400,254	\$ 288,497	\$ 197,940	\$ 2,886,691	

The following amounts are the value of in-kind gifts to the Organization, which are included in the above expenses:	\$ 243,964	(1)
	63,760	(2)
	19,390	(3)
	6,500	(4)
	121,200	(5)
	57,210	(6)
	<u>272,035</u>	(7)
	<u>\$ 784,059</u>	

See independent auditor's report and notes to financial statements.

PENNSYLVANIA SHAKESPEARE FESTIVAL
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (140,977)	\$ 92,449
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	30,225	24,660
Contributions Restricted for Permanent Endowment and Capital Campaign	(68,500)	(155,700)
Realized and Unrealized Gain on Investments	13,989	(306,249)
(Increase) Decrease in Assets:		
Accounts Receivable	(15,500)	29,425
Contributions Receivable	98,256	148,997
Deferred Expenses	(3,660)	-
Deferred Expenses - Education	1,261	(5,384)
Due from DeSales University	55,115	(59,131)
Inventory	(993)	(1,150)
Increase (Decrease) in Liabilities:		
Accounts Payable	(2,454)	2,813
Deferred Revenue - Education	(5,007)	(7,713)
Due to DeSales University	-	(4,612)
Total Adjustments	<u>102,732</u>	<u>(334,044)</u>
Net Cash Used by Operating Activities	<u>(38,245)</u>	<u>(241,595)</u>
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(10,641)	(43,257)
Sale (Purchase) of Investments, Net	<u>62,981</u>	<u>(11,117)</u>
Net Cash Provided (Used) by Investing Activities	<u>52,340</u>	<u>(54,374)</u>
Cash Flows from Financing Activities		
Contributions Restricted for Permanent Endowment and Capital Campaign	<u>68,500</u>	<u>155,700</u>
Net Cash Provided by Financing Activities	<u>68,500</u>	<u>155,700</u>
Net Increase (Decrease) in Cash and Cash Equivalents	82,595	(140,269)
Cash and Cash Equivalents at Beginning of Year	<u>466,913</u>	<u>607,182</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 549,508</u></u>	<u><u>\$ 466,913</u></u>
Supplemental Cash Flows Information		
In-kind Contributions - Special Events	<u>\$ 28,512</u>	<u>\$ 32,353</u>
In-kind Contributions - Facilities, Services, and Supplies	<u>\$ 737,133</u>	<u>\$ 784,059</u>

See independent auditor's report and notes to financial statements.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

1. Nature of Activities

The Official Shakespeare Festival of the Commonwealth of Pennsylvania, the Organization's mission is to enrich, inspire, engage, and entertain the widest possible audience through first-rate professional productions of classical and contemporary plays, with a core commitment to the works of Shakespeare and other master dramatists, and through an array of educational outreach and mentorship programs. A not-for-profit, professional regional theatre, the Organization has entertained over 977,500 patrons from 50 states since 1992.

The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The Organization is a wholly owned subsidiary of DeSales University (the "University"), a Pennsylvania Non-Profit Corporation.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Organization are set forth below.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting with the principles of not-for-profit accounting generally accepted in the United States of America. The financial statements reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Net assets and revenues, gains, expenses, and losses are classified as without donor restrictions or with donor restrictions based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets may be designated for specific purposes by action of the Board of Directors.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed stipulations that will be satisfied by actions of the Organization and/or the passage of time. When a restriction is satisfied, 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.

Non-Operating Activities

Non-operating activities primarily reflect transactions of a long-term investment or capital nature, including contributions restricted for future acquisitions of facilities and equipment and net realized and unrealized gains and losses on investments in excess of, or less than, the Organization's spending policy.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value for certain financial assets and liabilities. The three levels of the fair value hierarchy are as follows:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2	Quoted prices in markets that are not active, quoted prices for similar securities, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

See Note 5 for the fair value measurements by level within the fair value hierarchy.

Cash Equivalents

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less. Cash and cash equivalents representing assets of endowment funds are included in long-term investments. The carrying amount approximates fair value because of the short-term maturity of these instruments, which is considered a Level 1 input.

Accounts Receivable

Accounts receivable are stated at outstanding balance less an allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based primarily on past experience, aging of the receivables, and other relevant factors, and is maintained at a level considered adequate to provide for losses that can be reasonably anticipated.

Accounts are written off when they are determined to be uncollectible based upon management's assessment of the individual accounts.

**PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018**

2. Summary of Significant Accounting Policies (Continued)

Contributions

Contributions received, including unconditional promises to give, are recognized as revenue when the donor's commitment is received. The carrying amount of contributions receivable to be received in less than one year approximates fair value because of the short-term maturity of those instruments, which are considered Level 1 inputs. Unconditional promises to give over more than one year are recognized at the estimated present value of the future cash flows. The discount on those amounts are computed using the expected rate of return of a market participant applicable to the year in which the promise is received, which are considered Level 3 inputs.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Conditional promises are recorded when donor stipulations are substantially met.

Donated facilities and services are reflected as contributions in the accompanying statements at their estimated fair values at date of receipt. Contributed services are recorded if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Inventories

Inventories, which consist primarily of show souvenirs, are stated at the lower of cost or market.

Investments

Investments in marketable securities are stated at fair value. The average cost of marketable securities is used to determine the basis for computing realized and unrealized gains.

Endowment and other gifts are placed with the University, as agent, and pooled for investment as more fully described in Note 5.

Property and Equipment

Property and equipment are stated at cost if purchased or at fair value at date of donation if received by gift, less an allowance for depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 7 years. All assets with a purchased cost, or fair value, if acquired by gift, in excess of \$500 are capitalized.

Repairs and maintenance activities that do not extend the useful lives of the respective assets are expensed.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Deferred Revenues and Expenses

Revenue and expense related to annual WillPower Education Programs, which generally run through November of each year, are deferred to the fiscal year in which the season concludes. Deferred revenues and expenses are included in the net asset without donor restriction class in the accompanying Statement of Financial Position.

Promotion and Advertising Expenses

Promotion and advertising costs are expensed when incurred. Total promotion and advertising expense during the years ended September 30, 2019 and 2018 was \$160,453 and \$181,765, respectively, and are included in the operating expenses in the Statement of Activities.

Allocation of Expenses by Functional and Natural Classification

As reported in the Statement of Functional Expenses, expenses of the Organization have been allocated to the following function reporting classifications:

Program Services
Fund Raising
Management and General

The Organization's method for allocating expenses among the functional reporting classifications which cannot be specifically identified as program or supporting services are based on estimates of time and effort by key personnel among functions, and other objective bases.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates relate to the depreciation expense and useful lives of assets, the allowance for uncollectible contributions receivable, the fair value of alternative investments, and the estimated value of donated facilities and services.

Concentrations of Credit Risk

The Organization maintains its cash accounts at several commercial and savings banks. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for all depository accounts. The amount in excess of insured limits at September 30, 2019 was approximately \$339,810.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investments in the near term would materially affect the amounts reported in the Statement of Financial Position and the Statement of Activities.

Income Taxes

The Internal Revenue Service ("IRS") has ruled that the Organization is tax-exempt as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is required in the accompanying financial statements.

The Organization accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management has concluded that there are no material unrecognized tax benefits or accrued interest or penalties that would require recognition in the financial statements as of September 30, 2019 and 2018.

The Organization files its Form 990, *Return of Organization Exempt from Tax*, with the United States Internal Revenue Service and with the Bureau of Charitable Organizations in Pennsylvania.

Endowment Net Assets

The Organization's endowment gifts are placed with DeSales University, as agent, and pooled for investment with their endowment and similar funds. The Organization's endowment consists of both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Organization owns a proportionate share of the pooled investments and shares in a proportionate amount of the investment earnings, gains, and losses. Therefore, the Organization follows the endowment and investment policy of the University. The University has interpreted the relevant state law 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 Organization classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, including investment return on those amounts.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Endowment Net Assets (Continued)

Funds with Deficiencies: The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Organization to retain as a fund of perpetual duration. The Organization does not have a policy to suspend distributions on such endowments. The fair value of the board-designated endowment fund assets did not fall below the donor's original contribution in 2019 or 2018.

Investment Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets, equivalent to those used by the University, that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the performance of a blended index while assuming a moderate to moderately aggressive level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus five percent annually. Actual returns in any given year may vary from this amount.

Strategies for Achieving Objectives: The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The endowment policy targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Policy: The Organization follows an endowment investment return spending policy equivalent to that used by the University. The policy allows spending of the earnings of up to 5% of the lower of cost or market value of the respective endowment at the beginning of the fiscal year. Any income earned in excess of the spending limit is reinvested, while funds may be withdrawn from investment returns earned in previous years if income is less than the spending limit.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net assets.

Subsequent Events

Management has evaluated subsequent events through February 26, 2020, the date on which the financial statements were available to be issued.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Accounting Standards Adopted in the Current Year

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. Changes to the financial statements as a result of the adoption of this ASU are:

- Unrestricted net assets are renamed net assets without donor restriction
- Temporarily restricted net assets and permanently restricted net assets were combined under one category of net assets named net assets with donor restrictions
- The placed-in-service approach for releasing restrictions related to the contributions for long-lived assets being adopted.
- A footnote discussing the Organization's liquidity and availability of resources was added. See Note 7.

The changes have the following effect on net assets at September 30, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted Net Assets	\$ 895,259	\$ -
Temporarily Restricted Net Assets	835,672	-
Permanently Restricted Net Assets	4,843,289	-
Net Assets Without Donor Restrictions	-	895,259
Net Assets With Donor Restrictions	-	5,678,961
	<u>\$ 6,574,220</u>	<u>\$ 6,574,220</u>
Total Net Assets	<u>\$ 6,574,220</u>	<u>\$ 6,574,220</u>

In addition, certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 was early adopted by the Organization. There have been no significant changes to the financial statements as a result of the adoption of this ASU.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

3. Contributions Receivable

Unconditional promises to give have been recorded in the financial statements as contributions receivable and revenue of the appropriate net asset category.

Unconditional promises to give at September 30 are expected to be realized in the following periods:

	<u>2019</u>	<u>2018</u>
In One Year or Less	\$ 84,435	\$ 142,480
Between One and Five Years	124,560	154,130
Greater than Five Years	-	31,500
Gross Contributions Receivable	<u>208,995</u>	<u>328,110</u>
Less: Unamortized Discount (discount rate of 1.5%) and Allowance for Uncollectible Amounts	<u>(36,724)</u>	<u>(57,583)</u>
Total Net Contributions Receivable	<u><u>\$ 172,271</u></u>	<u><u>\$ 270,527</u></u>

Presented in the accompanying Statements of Financial Position as:

Contributions Receivable - Current	\$ 71,785	\$ 121,130
Contributions Receivable - Long-term	<u>100,486</u>	<u>149,397</u>
	<u><u>\$ 172,271</u></u>	<u><u>\$ 270,527</u></u>

4. Property and Equipment

	<u>2019</u>	<u>2018</u>
Furniture and Equipment	\$ 36,435	\$ 35,675
Technology Equipment	182,762	174,506
Vehicles	<u>28,773</u>	<u>28,773</u>
	247,970	238,954
Less: Accumulated Depreciation	<u>(164,210)</u>	<u>(135,610)</u>
Total Property and Equipment, Net	<u><u>\$ 83,760</u></u>	<u><u>\$ 103,344</u></u>

Depreciation charged to expense was \$30,225 and \$24,660 for the years ended September 30, 2019 and 2018, respectively.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

5. Investments - Long Term

Endowment gifts are placed with DeSales University, as agent, and pooled for investment with their endowment and similar funds. The Organization owns a proportionate share of the pooled investments and shares in a proportionate amount of the investment earnings, gains and losses.

The following table summarizes the carrying value (equal to fair value) and cost of the Organization's proportionate share of investments at September 30.

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Cash and Cash Equivalents	\$ 146,592	\$ 146,592	\$ 85,987	\$ 85,987
U.S. Government Obligations	206,809	200,069	166,479	167,149
Corporate Bonds	426,763	418,597	413,762	418,815
Equity Securities	3,594,614	2,999,418	3,760,445	2,970,706
Asset Backed Securities	98,102	96,628	116,950	121,920
Mutual Funds	153,309	150,735	144,246	147,362
Land	189,437	399,778	195,229	412,001
Alternative Investments	774,307	609,033	783,805	639,626
Total Investments	<u>\$ 5,589,933</u>	<u>\$ 5,020,850</u>	<u>\$ 5,666,903</u>	<u>\$ 4,963,566</u>

The components of total investment return are reflected below. Investment return for the years ended September 30, 2019 and 2018 is net of investment management and custodian expenses of approximately \$27,600 and \$28,900, respectively.

	2019	2018
Investment Earnings	\$ 106,620	\$ 102,217
Net Realized and Unrealized Gain	<u>(13,989)</u>	<u>306,249</u>
Total Investment Return	<u>\$ 92,631</u>	<u>\$ 408,466</u>

Investment return, as reflected in the Statement of Activities, consists of the following components:

	2019	2018
Operating:		
Endowment Spending Distribution	\$ 198,900	\$ 196,800
Endowment Spending Distribution - Education	<u>39,200</u>	<u>50,000</u>
	<u>238,100</u>	<u>246,800</u>
Non Operating:		
Endowment Earnings Less Than		
Spending Policy	(11,215)	(4,514)
Unrealized Net Gain (Loss) on Investments	<u>(134,254)</u>	<u>166,180</u>
	<u>(145,469)</u>	<u>161,666</u>
Total Investment Return	<u>\$ 92,631</u>	<u>\$ 408,466</u>

The spending distribution was 4-5% of the respective endowment in 2019 and 2018.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

5. Investments - Long Term (Continued)

Unrealized net gain (loss) is reported as unrealized net gain (loss) on investments, and realized net gains are reported as endowment earnings greater (less) than spending policy, both in non-operating activities of the Statement of Activities.

The following valuation techniques were used to measure the fair value of investments as of September 30, 2019 and 2018:

Money market funds, U.S. government obligations, income and growth mutual funds and marketable equity securities: Fair value for these investments was based on quoted market prices for the identical security.

Mortgage and other asset backed securities: Interest rates and credit risks of similar securities are used to determine the fair value of these instruments.

Land: An independent appraisal based on quoted prices for similar land and other observable inputs was used to determine the fair market value.

Alternative investments: Fair value was based on estimated fair values using the net asset value ("NAV") per share of the investments as provided by investment managers, adjusted to reflect significant events between measurement dates if the NAV measurement date was not September 30. Certain attributes that impact the security's fair value may not be reflected in NAV, including but not limited to, the investor's ability to redeem the investment at the measurement date and any unfunded purchase commitments. If the University sold all or a portion of its alternative investments, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date due to the nature of the investments, changes in market conditions and the overall economic environment.

Alternative investments are funds and partnerships that invest in a variety of strategies including hedge funds, managed futures, and private equity funds. These are generally illiquid investments pooled and professionally managed with the goal of generating higher returns. The investment strategies as of September 30, 2019 are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds	\$ 633,556	\$ -	Various	90-95 days
Managed Futures	140,253	-	Monthly	3 days
Private Equity Funds	<u>498</u>	<u>3,742</u>	Liquid	
	<u>\$ 774,307</u>	<u>\$ 3,742</u>		

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

5. Investments - Long Term (Continued)

There were no significant transfers among Level 1, 2, and 3 during the years ended September 30, 2019 or 2018. Transfers are recognized at the end of the reporting period.

The following table sets forth by level, within the fair value hierarchy, the Organization's proportionate share of University held assets measured at fair value as of September 30:

<u>2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 146,592	\$ -	\$ -	\$ 146,592
U.S. Government Obligations	206,809	-	-	206,809
U.S. Large-Cap Equities	1,853,675	-	-	1,853,675
U.S. Mid-Cap Equities	169,318	-	-	169,318
U.S. Small-Cap Equities	140,105	-	-	140,105
International Equities - Emerging	406,850	-	-	406,850
International Equities - Developed	1,024,666	-	-	1,024,666
Mutual Funds - Fixed Income	153,309	-	-	153,309
Corporate Bonds	-	426,763	-	426,763
Mortgage and Asset Backed Securities	-	98,102	-	98,102
Land	-	189,437	-	189,437
Total Investments by Valuation Hierarchy	<u>4,101,324</u>	<u>714,302</u>	<u>-</u>	<u>4,815,626</u>
Alternative Investments (measured at net asset value)				<u>774,307</u>
Total Investments				<u>\$ 5,589,933</u>
<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 85,987	\$ -	\$ -	\$ 85,987
U.S. Government Obligations	166,479	-	-	166,479
U.S. Large-Cap Equities	1,840,887	-	-	1,840,887
U.S. Mid-Cap Equities	167,228	-	-	167,228
U.S. Small-Cap Equities	154,444	-	-	154,444
International Equities - Emerging	425,335	-	-	425,335
International Equities - Developed	1,172,551	-	-	1,172,551
Mutual Funds - Fixed Income	144,246	-	-	144,246
Corporate Bonds	-	413,762	-	413,762
Mortgage and Asset Backed Securities	-	116,950	-	116,950
Land	-	195,229	-	195,229
Total Investments by Valuation Hierarchy	<u>4,157,157</u>	<u>725,941</u>	<u>-</u>	<u>4,883,098</u>
Alternative Investments (measured at net asset value)				<u>783,805</u>
Total Investments				<u>\$ 5,666,903</u>

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

6. Related Parties

The Organization is a wholly owned subsidiary of DeSales University. The estimated value of the in-kind gifts from the University for the years ended September 30 are as follows:

	<u>2019</u>	<u>2018</u>
Donated Facilities:		
Theater and Office Facilities	\$ 124,400	\$ 121,200
Artist Housing	<u>243,918</u>	<u>272,035</u>
	368,318	393,235
Personnel and Related Benefits	<u>315,862</u>	<u>327,114</u>
	<u>\$ 684,180</u>	<u>\$ 720,349</u>

The University also contributed cash of \$10,000 in 2019 and \$20,000 in 2018.

7. Liquidity and Availability

The following table reflects the Festival's financial assets as of September 30, 2019 that are available to meet general expenditures within one year of the Statement of Financial Position date:

Cash and Cash Equivalents	\$ 549,508
Accounts Receivable	36,360
Contributions Receivable	<u>71,785</u>
	<u>\$ 657,653</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Festival receives significant contributions with and without donor restrictions. Contributions and earnings thereon that are restricted for programs which are ongoing, major, and central to its annual operations are considered available to meet cash needs for general expenditures. In addition, the Festival strives to operate with a balanced budget and anticipates collecting sufficient revenue, principally through event ticket sales, concessions, special events and advertising, to cover general expenditures not covered by donor contributions and available endowment earnings.

The Organization's endowment funds consist of both donor-restricted endowments and board-designated endowments. The spending policy of the endowment funds is based on a rate of up to 5% of the lower of cost or market, which will yield approximately \$250,000 of appropriations for spending for the year ended September 30, 2020.

The board-designated endowment of \$429,158 is subject to an annual spending rate of up to 5%. Although the Festival does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available to be drawn upon if the need arises for liquidity purposes through board resolution.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

8. Net Assets

Net assets without donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
<u>Without Donor Restrictions:</u>		
Board Designated Endowment	\$ 429,158	\$ 409,468
Undesignated	<u>502,089</u>	<u>485,791</u>
Total Net Assets Without Donor Restriction	<u>\$ 931,247</u>	<u>\$ 895,259</u>

Net assets with donor restrictions are available for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
<u>Purpose or Time Restricted:</u>		
Education Program, Season #19	\$ 39,200	\$ -
Education Program, Season #18	10,000	50,000
"Campaign for Pennsylvania Shakespeare Festival"	74,564	140,123
Future Festival Sponsorships and Activities	119,750	101,000
Future Operations:		
General Festival Operations	222,605	314,721
"WillPower" Education Program	98,055	117,551
PSF Interns/Apprentices	42,043	55,464
Other Programs	<u>44,688</u>	<u>56,813</u>
Total Net Assets With Purpose or Time Restrictions	<u>\$ 650,905</u>	<u>\$ 835,672</u>
<u>Restricted in Perpetuity:</u>		
"Campaign for Pennsylvania Shakespeare Festival" - Endowment	\$ 97,706	\$ 130,404
General Festival Operations	1,474,738	1,474,738
General Festival Operations - Campaign	1,244,749	1,236,749
"WillPower" Education Program	948,179	948,179
"WillPower" Education Program - Campaign	96,800	91,800
PSF Interns/Apprentices	435,366	435,366
PSF Interns/Apprentices - Campaign	65,000	63,000
Other Programs	76,300	76,300
Other Programs - Campaign	<u>412,253</u>	<u>386,753</u>
Total Net Assets Restricted in Perpetuity	<u>\$ 4,851,091</u>	<u>\$ 4,843,289</u>
Total Net Assets With Donor Restrictions:	<u>\$ 5,501,996</u>	<u>\$ 5,678,961</u>

Net assets with donor restrictions released from purpose or time restrictions in the years ended September 30, 2019 and 2018 were \$85,864 and \$176,455, respectively.

Net assets with donor restrictions that are restricted in perpetuity consist of endowment fund assets (contributions receivable and investments) to be held indefinitely. The income from the assets can be used to support the above noted activities run by the Organization.

PENNSYLVANIA SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

8. Net Assets (Continued)

Endowment net asset composition by type of fund, based on existence or absence of donor-imposed restrictions, as well as board designations, as of September 30 are as follows:

<u>2019</u>	Without Donor Restrictions	With Donor Restrictions		Total Net Endowment Assets
		Purpose	Perpetuity	
Donor-Restricted Endowment Funds	\$ -	\$ 49,200	\$ 4,851,091	\$ 4,900,291
Board-Designated Endowment Funds	429,158	-	-	429,158
Total Funds	<u>\$ 429,158</u>	<u>\$ 49,200</u>	<u>\$ 4,851,091</u>	<u>\$ 5,329,449</u>

<u>2018</u>	Without Donor Restrictions	With Donor Restrictions		Total Net Endowment Assets
		Purpose	Perpetuity	
Donor-Restricted Endowment Funds	\$ -	\$ 50,000	\$ 4,843,289	\$ 4,893,289
Board-Designated Endowment Funds	409,468	-	-	409,468
Total Funds	<u>\$ 409,468</u>	<u>\$ 50,000</u>	<u>\$ 4,843,289</u>	<u>\$ 5,302,757</u>

Changes in endowment net assets for the years ending September 30 are as follows:

<u>2019</u>	Without Donor Restrictions	With Donor Restrictions		Total Net Endowment Assets
		Purpose	Perpetuity	
Endowment Net Assets, Beginning of Year	\$ 409,468	\$ 50,000	\$ 4,843,289	\$ 5,302,757
Contributions	28,000	-	7,802	35,802
Investment Income	198,900	39,200	-	238,100
Net Appreciation	(8,310)	-	-	(8,310)
Net Appropriated for Expenditure	(198,900)	(40,000)	-	(238,900)
Endowment Net Assets, End of Year	<u>\$ 429,158</u>	<u>\$ 49,200</u>	<u>\$ 4,851,091</u>	<u>\$ 5,329,449</u>

<u>2018</u>	Without Donor Restrictions	With Donor Restrictions		Total Net Endowment Assets
		Purpose	Perpetuity	
Endowment Net Assets, Beginning of Year	\$ 304,452	\$ 39,400	\$ 4,833,869	\$ 5,177,721
Contributions	90,700	-	9,420	100,120
Investment Income	196,800	50,000	-	246,800
Net Appreciation	14,316	-	-	14,316
Net Appropriated for Expenditure	(196,800)	(39,400)	-	(236,200)
Endowment Net Assets, End of Year	<u>\$ 409,468</u>	<u>\$ 50,000</u>	<u>\$ 4,843,289</u>	<u>\$ 5,302,757</u>