



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

OLD GLOBE THEATRE DBA THE OLD GLOBE

December 31, 2017 and 2016

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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 statements of financial position as of December 31, 2017 and 2016, the statements of unrestricted revenues, expenses, and other changes in unrestricted net assets, changes in net assets, 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 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, 2017 and 2016, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of unrestricted net assets by net asset component on pages 22 and 23 are presented for purposes of supplementary analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Moss Adams LLP

San Diego, California
March 29, 2018

**Old Globe Theatre dba The Old Globe
Statements of Financial Position**

		December 31,	
		2017	2016
ASSETS			
Cash and cash equivalents		\$ 7,016,803	\$ 7,910,427
Investments		3,224,448	2,730,249
Receivables, net		8,596,841	9,690,269
Inventories		137,587	116,665
Prepaid expenses and other assets		708,598	651,406
Property and equipment		24,529,860	25,496,621
Endowment assets:			
Investments		3,688,195	3,671,103
Pledges receivable		8,379,313	7,761,525
	Total assets	\$ 56,281,645	\$ 58,028,265
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses		\$ 1,398,014	\$ 1,817,442
Deferred revenue		3,434,607	3,475,009
Debt		2,666,408	2,851,482
	Total liabilities	7,499,029	8,143,933
Commitments and Contingencies (Notes 8, 13, and 14)			
Net Assets			
Unrestricted:			
Undesignated		413,634	326,028
Designated for property and equipment		8,201,005	8,455,111
Designated for endowment		378,773	378,773
	Total unrestricted	8,993,412	9,159,912
Temporarily restricted		27,721,696	29,291,792
Permanently restricted		12,067,508	11,432,628
	Total net assets	48,782,616	49,884,332
	Total liabilities and net assets	\$ 56,281,645	\$ 58,028,265

Old Globe Theatre dba The Old Globe
Statements of Unrestricted Revenues, Expenses, and Other
Changes in Unrestricted Net Assets

	Years Ended December 31,	
	2017	2016
UNRESTRICTED NET ASSETS		
Operating Revenue		
Ticket sales	\$ 12,941,115	\$ 12,649,084
Retail	796,471	727,204
Enhancements	631,860	1,712,311
Investment income	288,508	277,737
Royalties	85,986	99,046
Other revenue	46,168	93,059
Rental income	39,709	91,108
Education	21,530	22,064
Total operating revenue	<u>14,851,347</u>	<u>15,671,613</u>
Operating Expenses		
Program services	21,032,509	20,741,296
Management and general	2,987,319	2,954,991
Total operating expenses	<u>24,019,828</u>	<u>23,696,287</u>
Operating loss	<u>(9,168,481)</u>	<u>(8,024,674)</u>
Contributed Income		
Contributions	5,384,290	5,740,252
Net assets released from restrictions	3,660,321	2,583,920
	<u>9,044,611</u>	<u>8,324,172</u>
Special events	1,284,384	1,292,625
Government grants	672,488	622,505
In-kind contributions	419,189	251,839
Total contributed income	<u>11,420,672</u>	<u>10,491,141</u>
Expenses		
Fund-raising	2,027,431	1,917,286
Special events	442,979	388,987
Total expenses	<u>2,470,410</u>	<u>2,306,273</u>
Net contributed income	<u>8,950,262</u>	<u>8,184,868</u>
Change in Unrestricted Net Assets Before Gains	<u>(218,219)</u>	<u>160,194</u>
Gains		
Gain on disposal of property and equipment	-	1,900
Net realized and unrealized gains on investments	51,719	31,896
Total gains	<u>51,719</u>	<u>33,796</u>
CHANGE IN UNRESTRICTED NET ASSETS (see pages 22 and 23)	<u>\$ (166,500)</u>	<u>\$ 193,990</u>

Old Globe Theatre dba The Old Globe
Statements of Changes in Net Assets

	Years Ended December 31,	
	2017	2016
UNRESTRICTED NET ASSETS		
Total revenue, contributed income and gains	\$ 22,663,417	\$ 23,612,630
Net assets released from restrictions	3,660,321	2,583,920
Total expenses	<u>(26,490,238)</u>	<u>(26,002,560)</u>
(Decrease) increase in unrestricted net assets	<u>(166,500)</u>	<u>193,990</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,738,816	4,810,806
Endowment earnings	613,092	244,002
Appropriated endowment earnings	(261,683)	(258,610)
Net assets released from restrictions	<u>(3,660,321)</u>	<u>(2,583,920)</u>
(Decrease) increase in temporarily restricted net assets	<u>(1,570,096)</u>	<u>2,212,278</u>
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	620,739	590,603
Unrealized gains on investments	<u>14,141</u>	<u>3,418</u>
Increase in permanently restricted net assets	<u>634,880</u>	<u>594,021</u>
CHANGE IN NET ASSETS	(1,101,716)	3,000,289
NET ASSETS		
Beginning of year	<u>49,884,332</u>	<u>46,884,043</u>
End of year	<u><u>\$ 48,782,616</u></u>	<u><u>\$ 49,884,332</u></u>

Old Globe Theatre dba The Old Globe

Statements of Cash Flows

	Years Ended December 31,	
	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ (1,101,716)	\$ 3,000,289
Reconciliation to net cash from operating activities:		
Depreciation and amortization	1,563,928	1,411,910
Gain on disposal of property and equipment	-	(1,900)
Change in allowance on pledges receivable	(244,814)	450,000
Change in discount on pledges receivable	(423,422)	(185,883)
Net realized and unrealized (gains) on investments	(536,133)	(162,684)
Temporarily restricted contributions - pledges receivable	(1,689,031)	(5,145,101)
Permanently restricted contributions - pledges receivable	-	(1,200)
(Increase) decrease in operating assets:		
Receivables	77,920	123,853
Inventories	(20,922)	34,235
Prepaid expenses and other assets	(57,192)	(97,220)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(419,428)	506,679
Deferred revenue	(40,402)	200,754
Net cash (used in) provided by operating activities	<u>(2,891,212)</u>	<u>133,732</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	4,087,062	572,839
Purchases of investments	(4,062,220)	(497,660)
Proceeds from sale of property and equipment	-	1,900
Additions to construction-in-progress	(75,251)	(437,491)
Purchases of property and equipment	(517,521)	(712,804)
Net cash (used in) investing activities	<u>(567,930)</u>	<u>(1,073,216)</u>
FINANCING ACTIVITIES		
Collections of temporarily restricted pledges receivable	2,754,987	2,009,873
Collections of permanently restricted pledges receivable	-	1,200
Principal payments on debt	(189,469)	(182,941)
Net cash provided by financing activities	<u>2,565,518</u>	<u>1,828,132</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(893,624)	888,648
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>7,910,427</u>	<u>7,021,779</u>
End of year	<u>\$ 7,016,803</u>	<u>\$ 7,910,427</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 108,151</u>	<u>\$ 114,678</u>

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, 2017 and 2016, no provision for such taxes is required. The Old Globe has no unrecognized tax benefits or liabilities as of December 31, 2017 and 2016. 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 unrestricted, temporarily restricted, or permanently restricted based upon the following criteria:

- Unrestricted net assets represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets 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.
- Permanently restricted net assets are subject 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 accompanying statements of financial position.

Restricted cash – The Actors’ Equity Association requires The Old Globe to maintain a separate bank account to insure payments of actors’ benefits. As of December 31, 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 (“SDF”), 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, 2017 and 2016. 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 in the statement of changes in net assets as temporarily restricted contributions in the year the trust was established. The fair value of the remainder interest at December 31, 2017 and 2016 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 market 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 temporarily restricted net assets. In addition, it is The Old Globe's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. The Old Globe reclassifies temporarily restricted net assets to unrestricted net assets ratably over the donated property and equipment's estimated useful lives.

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 statement of financial position.

Revenue recognition

Ticket sales – Ticket sales are recorded as operating revenue on a specific performance basis. Ticket sales for future performances are initially deferred in the statement of financial position and subsequently recognized as revenue when the performances take place.

Retail – Retail sales represent revenue earned at the gift shop and pub. Revenue is recognized at the time of sale.

Enhancements – Enhancements represent funds received from others to expand budgets for specific productions. Revenue is recognized when the related production is performed.

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.

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.

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.

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 either temporarily or permanently restricted depending on the nature of the restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

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.

Government grants – Revenue from grants is recognized to the extent of eligible costs incurred, up to the maximum grant amount.

In-kind contributions – The value of services, facilities, and non-capitalized equipment donated is recorded as unrestricted contributions 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 permanently restricted, temporarily restricted, or unrestricted in-kind contribution support, 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. Advertising costs for the years ended December 31, 2017 and 2016 were approximately \$936,000 and \$948,000, respectively. 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.

Functional allocation of expenses – The costs of providing the programs and other activities have been summarized on a functional basis in the statements of unrestricted revenues, expenses, and other changes in unrestricted net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Old Globe Theatre dba The Old Globe Notes to Financial Statements

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

Reclassification – Certain amounts in the December 31, 2016 statement of unrestricted revenues, expenses, and other changes in unrestricted net assets have been reclassified to conform to the December 31, 2017 presentation, with no effect on net assets.

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 29, 2018, which is the date the financial statements were available to be issued.

Recently issued accounting standard – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 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. The guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact this will have on The Old Globe's future financial statements.

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, 2017 and 2016, approximately 79 percent of non-endowment pledges receivable is due from three donors and approximately 85 percent of non-endowment pledges receivable is due from five donors, respectively. For both of the years ended December 31, 2017 and 2016, approximately 99 percent of endowment pledges receivable is due from two donors.

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, 2017.

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 3 – Investments

Investments at December 31, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Certificate of deposit	\$ 506,365	\$ 503,550
Domestic and international equities	385,020	305,473
Fixed income – corporate bond funds	234,547	158,287
Money market funds	18,262	33,903
Cash and cash equivalents	5,259	5,450
	<u>1,149,453</u>	<u>1,006,663</u>
Accumulated endowment earnings	<u>2,074,995</u>	<u>1,723,586</u>
	<u>\$ 3,224,448</u>	<u>\$ 2,730,249</u>
Total	<u>\$ 3,224,448</u>	<u>\$ 2,730,249</u>

Endowment investments for which the corpus is restricted at December 31, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Equities:		
International non-emerging markets	\$ 1,027,141	\$ 540,698
Domestic large cap blend	558,541	1,041,494
Domestic large cap value	383,434	842,989
Domestic large cap growth	352,288	735,324
Other domestic equities	172,104	180,244
International emerging markets	159,233	77,305
Domestic small cap value	135,656	-
Domestic small cap growth	59,070	-
Fixed income:		
Corporate bond funds	2,299,364	1,430,525
Government and government agency bonds	399,583	323,044
Money market funds	44,431	56,030
Cash and cash equivalents	9,627	18,459
Funds held by The San Diego Foundation	162,718	148,577
	<u>5,763,190</u>	<u>5,394,689</u>
Accumulated endowment earnings	<u>(2,074,995)</u>	<u>(1,723,586)</u>
	<u>\$ 3,688,195</u>	<u>\$ 3,671,103</u>
Total	<u>\$ 3,688,195</u>	<u>\$ 3,671,103</u>

Old Globe Theatre dba The Old Globe
Notes to Financial Statements

Note 4 – Receivables

Receivables at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Pledges receivable	\$ 7,533,224	\$ 8,323,526
Charitable remainder trust	712,777	787,189
	<u>8,246,001</u>	<u>9,110,715</u>
Government grants	159,351	310,145
Other receivables	191,489	269,409
	<u>191,489</u>	<u>269,409</u>
Total	<u>\$ 8,596,841</u>	<u>\$ 9,690,269</u>

Pledges receivable and charitable remainder trust included in receivables at December 31, 2017 and 2016 are due as follows:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 1,600,240	\$ 3,013,088
Due in one to five years	3,492,500	2,750,000
Due in more than five years	4,850,000	5,350,000
Total unconditional promises to give	<u>9,942,740</u>	<u>11,113,088</u>
Less allowance for uncollectible receivables	(700,000)	(1,000,000)
Less discount to net present value ^(a)	<u>(996,739)</u>	<u>(1,002,373)</u>
	<u>(996,739)</u>	<u>(1,002,373)</u>
Net unconditional promises to give	<u>\$ 8,246,001</u>	<u>\$ 9,110,715</u>

Endowment assets – pledges receivable at December 31, 2017 and 2016 are due as follows:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ -	\$ -
Due in one to five years	2,000,000	-
Due in more than five years	14,149,000	16,149,000
Total unconditional promises to give	<u>16,149,000</u>	<u>16,149,000</u>
Less allowance for uncollectible receivables	(1,400,000)	(1,600,000)
Less discount to net present value ^(a)	<u>(6,369,687)</u>	<u>(6,787,475)</u>
	<u>(6,369,687)</u>	<u>(6,787,475)</u>
Net unconditional promises to give	<u>\$ 8,379,313</u>	<u>\$ 7,761,525</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, 2017 and 2016:

	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>
	Fair Value Measurements			2016 Total
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investments ^(a)	\$ 503,113	\$ 503,550	\$ -	\$ 1,006,663
Endowment investments ^(a)	5,246,112	-	148,577	5,394,689
Charitable remainder trust	-	-	787,189	787,189
	<u>\$ 5,749,225</u>	<u>\$ 503,550</u>	<u>\$ 935,766</u>	<u>\$ 7,188,541</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, 2017 and 2016 are as follows:

	Charitable Remainder Trust	Investments Held by SDF	Total
Balance, January 1, 2016	\$ 682,083	\$ 145,159	\$ 827,242
Interest and dividends	-	7,673	7,673
Distributions	-	(7,673)	(7,673)
Unrealized gains	-	3,418	3,418
Change in value of charitable remainder trust	<u>105,106</u>	<u>-</u>	<u>105,106</u>
Balance, December 31, 2016	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	<u>\$ 712,777</u>	<u>\$ 162,718</u>	<u>\$ 875,495</u>

The change in value of the charitable remainder trust is included in the statements of changes in net assets as a component of contributions. The unrealized gains on investments held by the SDF are included as a component of the change in permanently restricted net assets. The change in value and the unrealized gains for 2017 relate to Level 3 assets still held at December 31, 2017.

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 6 – Property and Equipment

Property and equipment at December 31, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 34,109,968	33,904,951
Furniture, fixtures, and equipment	5,378,242	5,342,981
Building and improvements	5,413,313	4,698,579
Land	1,750,000	1,750,000
Construction-in-progress	75,251	437,491
	<u>46,726,774</u>	<u>46,134,002</u>
Less accumulated depreciation	<u>(22,196,914)</u>	<u>(20,637,381)</u>
Total	<u>\$ 24,529,860</u>	<u>\$ 25,496,621</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, 2017 and 2016 is \$2,722,078 and \$2,885,841, respectively, and is shown net of debt issuance costs of \$55,670 and \$60,065, 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. Payments of \$25,706 were due annually through the maturity date of April 2018. The note was paid off in 2017 in advance of the maturity date. The balance outstanding on this loan at December 31, 2017 and 2016 is \$0 and \$25,706, respectively.

Principal payments on debt are due as follows:

Years Ending December 31,	
2018	\$ 169,557
2019	176,201
2020	182,850
2021	190,271
2022	197,727
Thereafter	<u>1,805,472</u>
Total	<u>\$ 2,722,078</u>

Interest expense totaled approximately \$108,000 and \$115,000 for the years ended December 31, 2017 and 2016, respectively.

Old Globe Theatre dba The Old Globe Notes to Financial Statements

Note 8 – 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 \$185,000 and \$171,000 were made by The Old Globe during the years ended December 31, 2017 and 2016, 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.

Note 9 – 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 \$302,000 and \$242,000 to The Old Globe for the years ended December 31, 2017 and 2016, respectively.

Note 10 – Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016 are available for:

	2017	2016
Purpose restrictions:		
Capital campaign – building and improvements	\$ 13,227,509	\$ 14,835,210
Future seasons support	4,173,191	3,622,281
Endowment fund accumulated earnings	2,074,995	1,723,586
Time restrictions:		
Pledges receivable and charitable remainder trust	8,246,001	9,110,715
Total	\$ 27,721,696	\$ 29,291,792

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 11 – Endowment Assets/Permanently Restricted Net Assets

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Old Globe in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment investments held by the SDF are managed in accordance with UPMIFA. The Old Globe classifies as permanently restricted net assets endowment investments held by the SDF consistently with (a) through (c) above and also classifies as permanently restricted net assets 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.

Old Globe Theatre dba The Old Globe Notes to Financial Statements

Note 11 – Endowment Assets/Permanently Restricted Net Assets (continued)

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 2017 and 2016) 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.

The net asset composition of board-designated and donor-restricted endowments at December 31, 2017 and 2016 is as follows:

	Board- Designated	Temporarily Restricted Accumulated Endowment Earnings	Permanently Restricted	2017 Total
Board-designated endowment funds	\$ 378,773	\$ -	\$ -	\$ 378,773
Donor-restricted endowment funds	-	-	3,688,195	3,688,195
Endowment funds - accumulated earnings	-	2,074,995	-	2,074,995
Pledges receivable	-	-	8,379,313	8,379,313
Total	\$ 378,773	\$ 2,074,995	\$ 12,067,508	\$ 14,521,276

	Board- Designated	Temporarily Restricted Accumulated Endowment Earnings	Permanently Restricted	2016 Total
Board-designated endowment funds	\$ 378,773	\$ -	\$ -	\$ 378,773
Donor-restricted endowment funds	-	-	3,671,103	3,671,103
Endowment funds - accumulated earnings	-	1,723,586	-	1,723,586
Pledges receivable	-	-	7,761,525	7,761,525
Total	\$ 378,773	\$ 1,723,586	\$ 11,432,628	\$ 13,534,987

Old Globe Theatre dba The Old Globe

Notes to Financial Statements

Note 11 – Endowment Assets/Permanently Restricted Net Assets (continued)

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	Board- Designated	Temporarily Restricted Accumulated Endowment Earnings	Permanently Restricted	Total
Endowment net assets January 1, 2016	\$ 310,413	\$ 1,738,194	\$ 10,838,607	\$ 12,887,214
Contributions	68,360	-	590,603	658,963
Investment income:				
Interest income	-	116,674	-	116,674
Realized and unrealized gains	-	127,328	3,418	130,746
Appropriated earnings	-	(258,610)	-	(258,610)
Endowment net assets December 31, 2016	<u>378,773</u>	<u>1,723,586</u>	<u>11,432,628</u>	<u>13,534,987</u>
Contributions	-	-	620,739	620,739
Investment income:				
Interest income	-	142,819	-	142,819
Realized and unrealized gains	-	470,273	14,141	484,414
Appropriated earnings	-	(261,683)	-	(261,683)
Endowment net assets December 31, 2017	<u>\$ 378,773</u>	<u>\$ 2,074,995</u>	<u>\$ 12,067,508</u>	<u>\$ 14,521,276</u>

Permanently restricted net assets are restricted for investment in perpetuity, the income from which at December 31, 2017 and 2016 is expendable to support:

	<u>2017</u>	<u>2016</u>
General operating expenses, including artistic and educational projects	\$ 11,886,908	\$ 11,266,169
Theatre programs held by the San Diego Foundation	162,718	148,577
Pagliotti Fund	<u>17,882</u>	<u>17,882</u>
Total	<u>\$ 12,067,508</u>	<u>\$ 11,432,628</u>

Note 12 – Net Assets Released from Restrictions

During the years ended December 31, 2017 and 2016, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes and satisfying time restrictions in the amount of \$3,660,321 and \$2,583,920, respectively.

Old Globe Theatre dba The Old Globe Notes to Financial Statements

Note 13 – Government Grants

Income from government grants at December 31, 2017 and 2016 is comprised of the following:

City of San Diego	\$ 537,105	\$ 550,705
National Endowment for the Arts	64,700	13,300
California State Arts Council	32,740	6,000
County of San Diego	21,000	52,500
CA Dept. of Corrections and Rehabilitation	14,761	-
Local Government Grants	2,182	-
	<hr/>	<hr/>
Total	<u>\$ 672,488</u>	<u>\$ 622,505</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 14 – 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 15 – 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 changes in net assets for the years ended December 31, 2017 and 2016, include approximately \$3,466,000 and \$1,611,000, respectively, received from members of the Board. Receivables on the accompanying statements of financial position as of December 31, 2017 and 2016 include approximately \$6,440,000 and \$5,883,000, respectively, of pledges receivable due from members of the Board.

Supplementary Information

Old Globe Theatre dba The Old Globe
Supplementary Information
Schedule of Unrestricted Net Assets by Net Asset Component
Year Ended December 31, 2017

	Unrestricted Net Assets			2017 Total
	Undesignated	Designated for Property and Equipment	Designated for Endowment	
OPERATING REVENUE				
Ticket sales	\$ 12,941,115	\$ -	\$ -	\$ 12,941,115
Retail	796,471	-	-	796,471
Enhancements	631,860	-	-	631,860
Investment income	288,508	-	-	288,508
Royalties	85,986	-	-	85,986
Other revenue	46,168	-	-	46,168
Rental income	39,709	-	-	39,709
Education	21,530	-	-	21,530
Total operating revenue	<u>14,851,347</u>	<u>-</u>	<u>-</u>	<u>14,851,347</u>
OPERATING EXPENSES				
Program services	19,769,288	1,263,221	-	21,032,509
Management and general	2,691,008	296,311	-	2,987,319
Total operating expenses	<u>22,460,296</u>	<u>1,559,532</u>	<u>-</u>	<u>24,019,828</u>
Operating loss	<u>(7,608,949)</u>	<u>(1,559,532)</u>	<u>-</u>	<u>(9,168,481)</u>
CONTRIBUTED INCOME				
Contributions	5,384,290	-	-	5,384,290
Net assets released from restrictions	2,859,892	800,429	-	3,660,321
	8,244,182	800,429	-	9,044,611
Special events	1,284,384	-	-	1,284,384
Government grants	672,488	-	-	672,488
In-kind contributions	419,189	-	-	419,189
Total contributed income	<u>10,620,243</u>	<u>800,429</u>	<u>-</u>	<u>11,420,672</u>
EXPENSES				
Fund-raising	2,027,431	-	-	2,027,431
Special events	442,979	-	-	442,979
Total expenses	<u>2,470,410</u>	<u>-</u>	<u>-</u>	<u>2,470,410</u>
Net contributed income	<u>8,149,833</u>	<u>800,429</u>	<u>-</u>	<u>8,950,262</u>
CHANGE IN UNRESTRICTED NET ASSETS BEFORE GAINS AND OTHER CHANGES	<u>540,884</u>	<u>(759,103)</u>	<u>-</u>	<u>(218,219)</u>
OTHER CHANGES IN NET ASSETS				
Acquisition of property and equipment:				
Operations	(315,528)	315,528	-	-
Payments on long-term debt	(189,469)	189,469	-	-
Total other changes	<u>(504,997)</u>	<u>504,997</u>	<u>-</u>	<u>-</u>
CHANGE IN UNRESTRICTED NET ASSETS BEFORE GAINS	<u>35,887</u>	<u>(254,106)</u>	<u>-</u>	<u>(218,219)</u>
GAINS				
Net realized and unrealized gains	51,719	-	-	51,719
Total gains	<u>51,719</u>	<u>-</u>	<u>-</u>	<u>51,719</u>
CHANGE IN UNRESTRICTED NET ASSETS	87,606	(254,106)	-	(166,500)
UNRESTRICTED NET ASSETS				
Beginning of year	326,028	8,455,111	378,773	9,159,912
End of year	<u>\$ 413,634</u>	<u>\$ 8,201,005</u>	<u>\$ 378,773</u>	<u>\$ 8,993,412</u>

Old Globe Theatre dba The Old Globe
Supplementary Information
Schedule of Unrestricted Net Assets by Net Asset Component
Year Ended December 31, 2016

	Unrestricted Net Assets			
	Undesignated	Designated for Property and Equipment	Designated for Endowment	2016 Total
OPERATING REVENUE				
Ticket sales	\$ 12,649,084	\$ -	\$ -	\$ 12,649,084
Retail	727,204	-	-	727,204
Enhancements	1,712,311	-	-	1,712,311
Investment income	277,737	-	-	277,737
Royalties	99,046	-	-	99,046
Other revenue	93,059	-	-	93,059
Rental income	91,108	-	-	91,108
Education	22,064	-	-	22,064
Total operating revenue	15,671,613	-	-	15,671,613
OPERATING EXPENSES				
Program services	19,601,209	1,140,087	-	20,741,296
Management and general	2,687,564	267,427	-	2,954,991
Total operating expenses	22,288,773	1,407,514	-	23,696,287
Operating loss	(6,617,160)	(1,407,514)	-	(8,024,674)
CONTRIBUTED INCOME				
Contributions	5,671,892	-	68,360	5,740,252
Net assets released from restrictions	1,784,721	799,199	-	2,583,920
	7,456,613	799,199	68,360	8,324,172
Special events	1,292,625	-	-	1,292,625
Government grants	622,505	-	-	622,505
In-kind contributions	251,839	-	-	251,839
Total contributed income	9,623,582	799,199	68,360	10,491,141
EXPENSES				
Fund-raising	1,917,286	-	-	1,917,286
Special events	388,987	-	-	388,987
Total expenses	2,306,273	-	-	2,306,273
Net contributed income	7,317,309	799,199	68,360	8,184,868
CHANGE IN UNRESTRICTED NET ASSETS BEFORE GAINS AND OTHER CHANGES	700,149	(608,315)	68,360	160,194
OTHER CHANGES IN NET ASSETS				
Acquisition of property and equipment:				
Operations	(711,802)	711,802	-	-
Interim construction	(62,491)	62,491	-	-
Payments on long-term debt	(182,941)	182,941	-	-
Transfer to property and equipment fund	238,425	(238,425)	-	-
Total other changes	(718,809)	718,809	-	-
CHANGE IN UNRESTRICTED NET ASSETS BEFORE GAINS	(18,660)	110,494	68,360	160,194
GAINS				
Gain on disposal of property and equipment	1,900	-	-	1,900
Net realized and unrealized gains	31,896	-	-	31,896
Total gains	33,796	-	-	33,796
CHANGE IN UNRESTRICTED NET ASSETS	15,136	110,494	68,360	193,990
UNRESTRICTED NET ASSETS				
Beginning of year	310,892	8,344,617	310,413	8,965,922
End of year	\$ 326,028	\$ 8,455,111	\$ 378,773	\$ 9,159,912