

PHILADELPHIA THEATRE COMPANY

FINANCIAL STATEMENTS

AUGUST 31, 2023 and 2022

PHILADELPHIA THEATRE COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Philadelphia Theatre Company

Report on the Audit of the Financial Statements***Opinion***

We have audited the financial statements of Philadelphia Theatre Company, which comprise the statements of financial position as of August 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for each of the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Philadelphia Theatre Company as of August 31, 2023 and 2022, and the changes in its net assets and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Philadelphia Theatre Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter Regarding Correction of an Error

As further discussed in Note B[1] to the financial statements, Philadelphia Theatre Company's 2022 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Philadelphia Theatre Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Philadelphia Theatre Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Philadelphia Theatre Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

EisnerAmper LLP

EISNERAMPER LLP
Philadelphia, Pennsylvania
January 31, 2024



PHILADELPHIA THEATRE COMPANY

Statements of Financial Position

	August 31,	
	2023	2022 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,054,849	\$ 1,490,238
Accounts receivable	103,549	43,514
Grants and contributions receivable, net	752,028	989,240
Prepaid expenses	99,037	146,101
	<u>2,009,463</u>	<u>2,669,093</u>
Property and equipment:		
Theatre building	3,278,777	3,278,777
Theatre equipment	2,403,435	2,352,371
Office equipment	119,963	132,829
	<u>5,802,175</u>	<u>5,763,977</u>
Less: accumulated depreciation	<u>2,090,258</u>	<u>1,848,570</u>
	<u>3,711,917</u>	<u>3,915,407</u>
Other assets:		
Deposits and other assets	34,272	36,954
Right-of-use asset	182,390	-
Grants and contributions receivable, long-term, net	562,124	906,896
	<u>778,786</u>	<u>943,850</u>
Total assets	<u>\$ 6,500,166</u>	<u>\$ 7,528,350</u>

See notes to financial statements

PHILADELPHIA THEATRE COMPANY

Statements of Financial Position (continued)

	August 31,	
	2023	2022 (Restated)
LIABILITIES		
Current liabilities:		
Notes payable, related parties	\$ 133,000	\$ 133,000
Accounts payable, operations	68,011	44,262
Mortgage notes payable, current portion	444,707	453,025
Current portion of operating lease liabilities	39,495	-
Accrued expenses	286,081	331,960
Deferred revenue	217,851	153,124
	1,189,145	1,115,371
Long-term liabilities:		
Notes payable	910,000	910,000
Notes payable, related parties	80,000	80,000
Paycheck Protection Program ("PPP") loan payable	-	156,565
Mortgage notes payable	1,473,081	1,473,081
Long-term operating lease liabilities	145,695	-
	2,608,776	2,619,646
Total liabilities	3,797,921	3,735,017
Commitments		
NET ASSETS		
Without donor restrictions	1,043,954	1,686,243
With donor restrictions	1,658,291	2,107,090
	2,702,245	3,793,333
Total liabilities and net assets	\$ 6,500,166	\$ 7,528,350

See notes to financial statements

PHILADELPHIA THEATRE COMPANY

Statements of Activities and Changes in Net Assets

	Year Ended August 31,					
	2023			2022 (Restated)		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and revenue:						
Grants and contributions	\$ 1,131,126	\$ 453,096	\$ 1,584,222	\$ 2,073,640	\$ 1,794,361	\$ 3,868,001
In-kind contributions	24,670	-	24,670	84,725	-	84,725
Single ticket sales	237,245	-	237,245	143,112	-	143,112
Subscriptions	90,305	-	90,305	70,869	-	70,869
Rental income	438,315	-	438,315	366,184	-	366,184
Concessions	49,997	-	49,997	10,803	-	10,803
Special events	255,880	-	255,880	-	-	-
Less: cost of direct benefit to donors	(72,062)	-	(72,062)	-	-	-
Gain on forgiveness of debt	166,123	-	166,123	251,938	-	251,938
Other income	206,060	-	206,060	7,428	-	7,428
Net assets released from restrictions	901,895	(901,895)	-	221,254	(221,254)	-
Total support and revenue	3,429,554	(448,799)	2,980,755	3,229,953	1,573,107	4,803,060
Expenses:						
Program services:						
Theatre	2,368,793	-	2,368,793	2,049,472	-	2,049,472
Literary	15,003	-	15,003	17,921	-	17,921
Facility rental	388,268	-	388,268	313,602	-	313,602
Supporting services:						
Fundraising	328,696	-	328,696	215,494	-	215,494
General and administrative	971,083	-	971,083	1,019,909	-	1,019,909
Total expenses	4,071,843	-	4,071,843	3,616,398	-	3,616,398
Change in net assets	(642,289)	(448,799)	(1,091,088)	(386,445)	1,573,107	1,186,662
Net assets at beginning of year	1,686,243	2,107,090	3,793,333	2,072,688	533,983	2,606,671
Net assets at end of year	\$ 1,043,954	\$ 1,658,291	\$ 2,702,245	\$ 1,686,243	\$ 2,107,090	\$ 3,793,333

See notes to financial statements

PHILADELPHIA THEATRE COMPANY

Statement of Functional Expenses Year Ended August 31, 2023

	Program Services				Supporting Services			Total
	Theatre	Literary	Facility Rental	Total Program Services	Fundraising	General and Administrative	Total Supporting Services	
Expenses:								
Personnel:								
Administrative	\$ 520,079	\$ -	\$ 179,883	\$ 699,962	\$ 253,940	\$ 181,146	\$ 435,086	\$ 1,135,048
Employee benefits	31,585	-	15,880	47,465	6,828	8,289	15,117	62,582
Payroll taxes	44,743	12	15,209	59,964	21,354	10,142	31,496	91,460
Total personnel	596,407	12	210,972	807,391	282,122	199,577	481,699	1,289,090
Production costs:								
Artist housing	94,792	3,714	-	98,506	-	-	-	98,506
Artist travel	11,740	2,268	-	14,008	-	-	-	14,008
Artistic salaries	339,808	5,728	-	345,536	2,050	400	2,450	347,986
Artists' benefits	55,187	-	-	55,187	-	-	-	55,187
Materials	268,854	-	4,412	273,266	78	-	78	273,344
Miscellaneous production	82,811	1,954	-	84,765	-	1,902	1,902	86,667
Theatre cleaning	56,749	100	8,789	65,638	-	-	-	65,638
Technical salaries	323,378	818	163,493	487,689	1,547	969	2,516	490,205
Total production costs	1,233,319	14,582	176,694	1,424,595	3,675	3,271	6,946	1,431,541
Marketing and advertising:								
Marketing and advertising	169,955	289	24	170,268	26,706	300	27,006	197,274
Total marketing and advertising	169,955	289	24	170,268	26,706	300	27,006	197,274
Administration:								
Bank/credit card charges	91	-	-	91	1,556	28,159	29,715	29,806
Building contract services and supplies	27,933	-	-	27,933	-	342	342	28,275
Concessions	14,275	-	-	14,275	-	-	-	14,275
Condo fees	62,443	-	-	62,443	-	-	-	62,443
Building equipment	28,624	-	-	28,624	-	-	-	28,624
Interest	-	-	-	-	-	108,578	108,578	108,578
COVID-19 safety	33,534	120	-	33,654	-	1,132	1,132	34,786
Postage/delivery	11,261	-	7	11,268	2,239	633	2,872	14,140
Dues and licenses	6,740	-	-	6,740	-	3,066	3,066	9,806
Permits and licenses	85	-	-	85	250	2,719	2,969	3,054
Office supplies and expense	6,094	-	-	6,094	5,285	18,049	23,334	29,428
Professional fees:								
Accounting and audit	-	-	-	-	-	107,040	107,040	107,040
Payroll services	-	-	-	-	-	17,307	17,307	17,307
Consulting/other professional fees	-	-	-	-	-	135,140	135,140	135,140
Printing	-	-	-	-	3,669	1,073	4,742	4,742
Property/liability insurance	77,556	-	-	77,556	-	14,773	14,773	92,329
Rent	-	-	-	-	-	33,520	33,520	33,520
Telephone/internet	-	-	-	-	-	13,813	13,813	13,813
Tessitura consortium assessment	25,522	-	-	25,522	-	-	-	25,522
Training/recruitment	2,500	-	-	2,500	100	3,301	3,401	5,901
Travel and entertainment	4,274	-	571	4,845	3,031	4,331	7,362	12,207
Utilities	60,703	-	-	60,703	-	-	-	60,703
Miscellaneous	7,477	-	-	7,477	63	4,978	5,041	12,518
Depreciation	-	-	-	-	-	269,981	269,981	269,981
Total administration	369,112	120	578	369,810	16,193	767,935	784,128	1,153,938
Total functional expenses, excluding special events	2,368,793	15,003	388,268	2,772,064	328,696	971,083	1,299,779	4,071,843
Special events - Gala:								
Cost of direct benefits to donors:								
Auction items and other	-	-	-	-	5,931	-	5,931	5,931
Food and beverage	-	-	-	-	36,585	-	36,585	36,585
Production costs and entertainment	-	-	-	-	29,546	-	29,546	29,546
Total special events - Gala	-	-	-	-	72,062	-	72,062	72,062
Total functional expenses	\$ 2,368,793	\$ 15,003	\$ 388,268	\$ 2,772,064	\$ 400,758	\$ 971,083	\$ 1,371,841	\$ 4,143,905

See notes to financial statements

PHILADELPHIA THEATRE COMPANY

Statement of Functional Expenses Year Ended August 31, 2022

	Program Services			Total Program Services	Supporting Services			Total
	Theatre	Literary	Facility Rental		Fundraising	General and Administrative	Total Supporting Services	
Expenses:								
Personnel:								
Administrative	\$ 491,303	\$ -	\$ 120,222	\$ 611,525	\$ 174,132	\$ 178,231	\$ 352,363	\$ 963,888
Employee benefits	29,788	-	8,819	38,607	997	8,369	9,366	47,973
Payroll taxes	47,575	-	11,271	58,846	15,394	11,709	27,103	85,949
Total personnel	568,666	-	140,312	708,978	190,523	198,309	388,832	1,097,810
Production costs:								
Artist housing	64,618	3,278	-	67,896	-	-	-	67,896
Artist travel	8,365	2,095	-	10,460	-	23	23	10,483
Artistic salaries	179,426	11,600	-	191,026	450	-	450	191,476
Artists' benefits	30,801	-	-	30,801	-	-	-	30,801
Materials	152,801	134	3,055	155,990	450	-	450	156,440
Miscellaneous production	34,218	-	-	34,218	142	790	932	35,150
Presenting	86,216	-	-	86,216	-	-	-	86,216
Theatre cleaning	48,594	-	8,517	57,111	-	-	-	57,111
Technical salaries	288,506	394	160,870	449,770	1,575	1,186	2,761	452,531
Total production costs	893,545	17,501	172,442	1,083,488	2,617	1,999	4,616	1,088,104
Marketing and advertising:								
Marketing and advertising	181,900	420	-	182,320	12,065	150	12,215	194,535
Total marketing and advertising	181,900	420	-	182,320	12,065	150	12,215	194,535
Administration:								
Bank/credit card charges	5	-	-	5	-	17,802	17,802	17,807
Building contract services and supplies	34,923	-	-	34,923	-	402	402	35,325
Concessions	3,605	-	-	3,605	-	-	-	3,605
Condo fees	59,565	-	-	59,565	-	-	-	59,565
Building equipment	89,720	-	-	89,720	-	-	-	89,720
Interest	-	-	-	-	-	128,097	128,097	128,097
COVID-19 safety	43,926	-	795	44,721	(75)	537	462	45,183
Postage/delivery	8,161	-	-	8,161	2,690	932	3,622	11,783
Dues and licenses	40	-	-	40	265	8,518	8,783	8,823
Office supplies and expense	5,107	-	-	5,107	294	27,685	27,979	33,086
Professional fees:								
Accounting and audit	-	-	-	-	-	101,406	101,406	101,406
Payroll services	-	-	-	-	-	14,647	14,647	14,647
Consulting/other professional fees	-	-	-	-	-	133,959	133,959	133,959
Printing	104	-	-	104	2,714	382	3,096	3,200
Property/liability insurance	71,551	-	-	71,551	1,000	12,400	13,400	84,951
Rent	-	-	-	-	-	25,891	25,891	25,891
Telephone/internet	-	-	-	-	-	13,980	13,980	13,980
Tessitura consortium assessment	25,308	-	-	25,308	-	-	-	25,308
Training/recruitment	820	-	-	820	-	55,706	55,706	56,526
Travel and entertainment	1,458	-	53	1,511	1,890	2,561	4,451	5,962
Utilities	57,700	-	-	57,700	-	-	-	57,700
Miscellaneous	3,368	-	-	3,368	1,511	3,134	4,645	8,013
Depreciation	-	-	-	-	-	271,412	271,412	271,412
Total administration	405,361	-	848	406,209	10,289	819,451	829,740	1,235,949
Total functional expenses	\$ 2,049,472	\$ 17,921	\$ 313,602	\$ 2,380,995	\$ 215,494	\$ 1,019,909	\$ 1,235,403	\$ 3,616,398

See notes to financial statements

PHILADELPHIA THEATRE COMPANY

Statements of Cash Flows

	Year Ended August 31,	
	2023	2022 (Restated)
Cash flows from operating activities:		
Change in net assets	\$ (1,091,088)	\$ 1,186,662
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	269,981	271,412
Gain on disposal of fixed assets	(888)	-
Amortization of operating lease right-of-use asset	19,752	-
Gain on forgiveness of debt	(166,123)	(251,938)
Deferred interest	26,583	53,163
Changes in assets and liabilities:		
Accounts receivable	37,107	16,571
Grants and contributions receivable	484,842	(1,313,686)
Prepaid expenses	47,064	(57,803)
Deposits and other assets	2,682	(24,972)
Accounts payable, operations	23,749	24,624
Operating lease liabilities	(18,347)	-
Accrued expenses	(72,462)	37,750
Deferred revenue	64,727	(327,287)
	(372,421)	(385,504)
Cash flows from investing activities:		
Additions to property and equipment	(54,650)	(134,886)
Cash flows from financing activities:		
Principal repayments of mortgage notes payable	(8,318)	(8,141)
Net decrease in cash and cash equivalents	(435,389)	(528,531)
Cash and cash equivalents at beginning of year	1,490,238	2,018,769
Cash and cash equivalents at end of year	\$ 1,054,849	\$ 1,490,238
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 81,995	\$ 74,934
Supplemental disclosure of noncash financing activities:		
Right-of-use assets acquired via operating lease	\$ 207,037	\$ -

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE A - NATURE OF OPERATIONS

Philadelphia Theatre Company ("PTC") is a theatre company located in Philadelphia, Pennsylvania, and is a member of the League of Resident Theatres, which administers the primary national not-for-profit collective bargaining agreements with various artistic organizations. PTC is dedicated to producing the Philadelphia and world premieres of major works by contemporary playwrights, with an emphasis on American drama. Revenue is earned primarily through ticket sales, grants and contributions.

PTC's theatre program services represent its theatre productions intended for its core mainstage season. Literary services represent work associated with productions that are not included in the mainstage season, but often productions that are being developed and may appear in a future mainstage season. Facility rental services represent the rental of the theatre venue to outside entities as a licensee for an event.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Restatement:

PTC's financial statements as of and for the year ended August 31, 2022 have been restated to recognize a pledge of future contributions that was initially received during the year ended August 31, 2022, but not recorded. In August 2022, the donor pledged to give PTC a total of \$1,200,000, with scheduled payments of \$400,000 per year for each of the fiscal years ended August 31, 2023, 2024 and 2025. It was determined that this was an unconditional contribution and should have been recorded in full during the year ended August 31, 2022, net of discount on the long-term portion of the receivable totaling \$61,472. This resulted in grants and contributions revenue, grants and contributions receivable and net assets being understated by \$1,138,528 as of and for the year ended August 31, 2022. These adjustments had no income tax effect as PTC is not subject to income tax. The following table summarizes the restated balances as of and for the year ended August 31, 2022:

Statement of Financial Position:

	As Previously Reported on August 31, 2022	Error Correction	As Restated on August 31, 2022
Grants and contributions receivable, net (current)	\$ 589,240	\$ 400,000	\$ 989,240
Grants and contributions receivable, long-term, net	\$ 168,368	\$ 738,528	\$ 906,896
Total assets	\$ 6,389,822	\$ 1,138,528	\$ 7,528,350
Net assets, with donor restrictions	\$ 968,562	\$ 1,138,528	\$ 2,107,090
Total net assets	\$ 2,654,805	\$ 1,138,528	\$ 3,793,333

Statement of activities and changes in net assets:

	As Previously Reported for the Year Ended August 31, 2022	Error Correction	As Restated for the Year Ended August 31, 2022
Grants and contributions, with donor restrictions	\$ 655,833	\$ 1,138,528	\$ 1,794,361
Total grants and contributions	\$ 2,729,473	\$ 1,138,528	\$ 3,868,001
Total support and revenue, with donor restrictions	\$ 434,579	\$ 1,138,528	\$ 1,573,107
Total support and revenue	\$ 3,664,532	\$ 1,138,528	\$ 4,803,060
Change in net assets with donor restrictions	\$ 434,579	\$ 1,138,528	\$ 1,573,107
Total change in net assets	\$ 48,134	\$ 1,138,528	\$ 1,186,662
Net assets with donor restrictions at end of year	\$ 968,562	\$ 1,138,528	\$ 2,107,090
Total net assets at end of year	\$ 2,654,805	\$ 1,138,528	\$ 3,793,333

Statement of cash flows:

	As Previously Reported for the Year Ended August 31, 2022	Error Correction	As Restated for the Year Ended August 31, 2022
Change in net assets	\$ 48,134	\$ 1,138,528	\$ 1,186,662
Grants and contributions receivable	\$ (175,158)	\$ (1,138,528)	\$ (1,313,686)

The correction of the error had no effect on cash flows from operating activities, cash flows from investing activities or cash flows from financing activities.

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

[3] Classification of net assets:

Net assets and revenues are classified based on the existence or absence of donor-imposed or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

[4] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[5] Concentrations of credit risk:

PTC maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. PTC has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash.

[6] Cash and cash equivalents:

Cash and cash equivalents, which are highly liquid in nature with an initial maturity date of 90 days or less, are composed of cash, savings, checking and money market operating accounts held at financial institutions in interest-bearing accounts.

[7] Property and equipment and depreciation:

Property and equipment are stated at cost, if purchased, or estimated fair value on the date of donation, if contributed, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 10 to 40 years for theatre building, 5 to 20 years for theatre equipment and 5 years for office equipment. Purchases of property and equipment in excess of \$1,000 are capitalized and recognized in the statements of financial position. Expenditures for repairs and maintenance are expensed as incurred, whereas renewals and betterments that extend the lives of property are capitalized.

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Property and equipment and depreciation: (continued)

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis, and when triggering events indicate that the fair value of the long-lived assets may be less than the carrying value and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of August 31, 2023 and 2022, and in the opinion of management, there was no impairment. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[8] Revenue recognition:

Single ticket sale revenue:

PTC's performance obligation relating to ticket sale revenue is to hold the performance for which the tickets were purchased. Ticket sale revenue is recognized at a point in time when the related production takes place. Tickets are purchased prior to when the performances take place. There was no opening balance in deferred ticket sale revenue on September 1, 2021. The balance in deferred ticket sale revenue as of August 31, 2023 and 2022, was \$-0- and \$1,903, respectively.

Subscription revenue:

PTC's performance obligation relating to its subscription offering is to provide benefits to its members for the duration of the subscription term, which coincides with PTC's fiscal year. Benefits include access to performances and discounts. These benefits are simultaneously received and consumed by the members; therefore, subscription revenue is recognized ratably over the term of the subscription. Subscriptions are billed and due in full prior to the start of the subscription period. The opening balance in deferred subscription revenue was \$3,656 on September 1, 2021. The balance in deferred subscription revenue as of August 31, 2023 and 2022 was \$84,101 and \$77,446, respectively.

Rental income:

Rental income primarily consists of charges for rents in connection with the use of PTC's theatre and the use of PTC's personnel during the related production. PTC's performance obligation is to provide the use of the theatre and personnel for the related production. This revenue is recognized at a point in time once the production takes place or the services are performed. Rents are invoiced upon completion of agreed upon services and any balance due is payable upon receipt of invoice. The opening balances in rentals receivable and deferred rental income on September 1, 2021 was \$45,198 and \$84,303, respectively. The balance in rentals receivable as of August 31, 2023 and 2022, was \$97,142 and \$34,964, respectively. The balance in deferred rental income as of August 31, 2023 and 2022, was \$130,850 and \$24,364, respectively.

Concession revenue:

The sole performance obligation relating to concession revenue is to provide patrons with food and beverages. Concession revenue is recognized at the time of sale.

Special events revenue:

The sole performance obligation relating to special events is to host the special event. Special events revenue is recognized at a point in time when the event takes place.

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Revenue recognition: (continued)

Special events revenue: (continued)

PTC recognizes contract liabilities for consideration received in respect to unsatisfied performance obligations and reports these amounts as deferred revenue in the statements of financial position. Deferred revenue principally consists of ticket sale and subscription revenue, rental income, and grants received in advance of the performance obligation being satisfied. Similarly, PTC recognizes a contract asset if a performance obligation is satisfied before consideration is received and reports these amounts as receivables in the statements of financial position.

Contributions:

Grants and contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

In-kind contributions are recorded at their estimated fair values in the period received. Donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received. In-kind contributions for the years ended August 31, 2023 and 2022, which consisted primarily of pro bono legal services, were \$24,670 and 84,725, respectively, and are included in in-kind contributions on the statements of activities and changes in net assets, and in consulting/other professional fees on the statements of functional expenses. The fair value of the legal services is based on the law firm's billing rates and time expended.

[9] Receivables:

Accounts receivable are periodically reviewed by management for collectability. Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable on an individual account basis. Accounts are written off when they are deemed uncollectible. Management has determined that an allowance for uncollectible accounts receivable is not deemed necessary as of August 31, 2023 or 2022.

Grants and contributions receivable are presented at net present value using an appropriate discount rate as determined by management (see Note D). In addition, management provides an allowance for uncollectible grants and contributions based on its assessment of the current status of individual commitments to give. When all collection efforts have been exhausted, the accounts are written off. Management has determined that an allowance for uncollectible grants and contributions is not deemed necessary as of August 31, 2023 or 2022.

[10] Leases:

PTC determines if an arrangement is a lease at inception.

Operating leases are recorded as operating lease right-of-use ("ROU") assets and operating lease liabilities (current portion and long-term portion) on the accompanying statement of financial position. Operating lease ROU assets and the related lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The operating lease ROU assets also include lease incentives and initial direct costs incurred. For operating leases, interest on the lease liability and the amortization of ROU asset result in straight-line rent expense over the lease term.

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Leases (continued):

Leases may include options to extend or terminate the lease which are included in the ROU operating lease assets and operating lease liability when they are reasonably certain of exercise. Operating lease expense associated with minimum lease payments is recognized on a straight-line basis over the lease term. When additional payments are based on usage or vary based on other factors, they are considered variable lease payments and are excluded from the measurement of the right-of-use asset and lease liability. These payments are recognized as an expense in the period in which the related obligation was incurred.

For the year ended June 30, 2022, the Association accounted for leases under ASC 840. Operating leases were recorded on a straight-line basis over the term of the lease.

[11] PPP loan payable:

PTC elected to account for the Paycheck Protection Program ("PPP") proceeds received under the Coronavirus Aid, Relief, and Economic Security Act ("CARES" Act) during the years ended August 31, 2021 and 2020 as debt. For the first PPP loan, which was received during the year ended August 31, 2020, loan forgiveness was recognized during the year ended August 31, 2021, once the conditions for loan forgiveness were met and the forgiveness amount was formally approved by the bank and the U.S. Small Business Administration ("SBA"). PTC received a second PPP loan during the year ended August 31, 2021, in which it applied for forgiveness during the year ended August 31, 2022. In September 2022, PTC was notified that it had received forgiveness from the bank and SBA, and therefore, loan forgiveness for the second PPP loan was recognized during the year ended August 31, 2023.

[12] Advertising and marketing:

Advertising and marketing costs related to the production season are expensed the first time the production takes place. General advertising and marketing costs are expensed as incurred. Advertising and marketing expenses were \$197,274 and \$194,535 for the years ended August 31, 2023 and 2022, respectively.

[13] Functional allocation of expenses:

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are allocated between program and supporting services. Salaries, benefits, and payroll taxes are allocated based on hours employees work in each respective program in accordance with their position and job duties. All expenses related to rentals are distinguishable based on the expenses associated with a contracted rental of the venue. The remaining expenses are individually coded to a specific department and function within PTC's chart of accounts, as determined by management.

[14] Federal tax status:

PTC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision has been made for income taxes.

U.S. GAAP requires management to evaluate tax positions taken and recognize a tax liability if PTC has taken an uncertain tax position that more likely than not would not be sustained upon examination by a government authority. Management has analyzed the tax positions taken by PTC and has concluded that as of August 31, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

PTC recognizes accrued interest and penalties associated with uncertain tax positions, if any. There were no income tax related interest or penalties recorded for either of the years ended August 31, 2023 or 2022.

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Adoption of new accounting pronouncements:

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

PTC adopted the standard effective September 1, 2022 and recognized and measured leases existing September 1, 2022, with certain practical expedients available. Lease disclosures for the year ended August 31, 2022 are made under prior lease guidance in FASB ASC 840. Accordingly, PTC applied the guidance to each lease that had commenced as of the adoption date and also elected a package of practical expedients which included the following: no requirement to reassess (a) whether any expired or existing contracts are, or contain, leases, (b) the lease classification for any expired or existing leases, and (c) the recognition requirements for initial direct costs for any existing leases. PTC also elected a practical expedient to account for lease and non-lease components as a single lease component. PTC excluded short-term leases having initial terms of twelve months or less from the new guidance as an accounting policy election and recognizes rent expense for such leases on a straight-line basis over the lease term. In calculating the related lease liabilities at the time of adoption, PTC utilized historical experience when determining the noncancelable portion of the lease term and elected to use the risk-free rate as the discount rate.

As a result of the adoption of the new lease accounting, PTC recognized on September 1, 2022 an operating lease liability of \$11,235, which represents the present value of the remaining operating lease payments, discounted using the risk-free rate of 3.48%, and a right-of-use assets of \$11,235.

The standard did not have a material impact on its statement of financial position, statement of activities and changes in net assets, or statement of cash flows.

NOTE C - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position dates, comprise the following as of August 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u> (Restated)
Cash and cash equivalents	\$ 1,054,849	\$ 1,490,238
Accounts receivable	103,549	43,514
Grants and contributions receivable, due in less than one year	<u>752,028</u>	<u>989,240</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,910,426</u>	<u>\$ 2,522,992</u>

As part of PTC's liquidity management plan, PTC structures its financial assets to be available as its general expenditures, liabilities and other obligations come due.

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE D - GRANTS AND CONTRIBUTIONS RECEIVABLE

PTC has received unconditional grants and contributions, some of which are receivable in future years. Those of which are receivable in more than one year are discounted using appropriate rates as determined by management, which ranged from 4.23% to 5.50% for the year ended August 31, 2023 and 5.50% for the year ended August 31, 2022. Unconditional grants and contributions as of August 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u> <u>(Restated)</u>
Less than one year	\$ 752,028	\$ 989,240
1 - 5 years	<u>595,000</u>	<u>968,368</u>
Total grants and contributions receivable	1,347,028	1,957,608
Less discount to net present value	<u>32,876</u>	<u>61,472</u>
Grants and contributions receivable, net	<u>\$ 1,314,152</u>	<u>\$ 1,896,136</u>

NOTE E - PPP LOANS PAYABLE

On May 12, 2020, PTC obtained a \$247,700 term loan from PNC Bank pursuant to the CARES Act Paycheck Protection Program. The loan bore interest at 1%; however, loan repayments were deferred as PTC applied for loan forgiveness for the loan. In January 2022, the PPP loan and accrued interest totaling \$4,238 was forgiven in full per bank approval and in accordance with SBA guidelines and was therefore recognized as gain on forgiveness of debt on the statements of activities and changes in net assets.

In April 2021, PTC received a second loan for \$156,565, pursuant to the CARES Act PPP. This loan may be forgiven subject to bank approval in accordance with the SBA guidelines. The loan bore interest at 1%; however, loan repayments were deferred as PTC applied for loan forgiveness prior to August 2022. In September 2022, PTC was formally notified that the lender and the SBA approved the forgiveness of the loan and accrued interest in full. The forgiven debt and interest is recognized as gain on forgiveness of debt on the statements of activities and changes in net assets.

The PPP loans payable balance was \$-0- and \$156,565 as of August 31, 2023 and 2022, respectively.

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE F - MORTGAGE NOTES PAYABLE

In September 2015, PTC completed the purchase of the Suzanne Roberts Theatre ("SRT") from TD Bank for \$5,000,000. \$3,000,000 was provided through donor contributions, and PTC obtained mortgage financing through the Philadelphia Industrial Development Corporation ("PIDC") for the remaining \$2,000,000, as described below.

PTC entered into a loan agreement with PIDC Local Development Corporation ("PIDC-LDC"), whereby PTC received a principal sum of \$1,500,000, and which, after a loan modification, was payable in interest-only payments, bearing interest at a rate of 3%, through July 1, 2023, at which time a payment of the outstanding principal of approximately \$1,473,000, plus any unpaid interest, was scheduled to become due. In July 2020, the terms of this loan were again modified, deferring the interest-only payments from August 1, 2020 through June 30, 2021. After this forbearance period, PTC will resume making monthly payments of interest at a rate of 3% per annum, through August 31, 2023. In October 2023, the terms of the loan were modified, extending the interest-only period through August 31, 2024. Beginning on September 1, 2024, PTC will make regular monthly payments of principal and interest in the amount of \$8,170 until the maturity date of July 1, 2031.

On July 31, 2031, PTC will also repay all outstanding principal, accrued interest and fees, including any principal and interest payments that were deferred during the forbearance period. The loan is collateralized by liens on PTC's theatre building and business assets. The outstanding principal balance of this loan was \$1,473,081 as of both August 31, 2023 and 2022. Interest expense related to this loan was \$44,192 for each of the years ended August 31, 2023 and 2022.

PTC entered into a loan agreement with PIDC Community Capital, whereby PTC received a principal sum of \$500,000, which was payable in monthly installments of \$3,079, including interest at a rate of 6.25% per year. The loan was originally scheduled to mature on November 1, 2020, at which time a balloon payment of all outstanding principal, plus any unpaid interest, was due. In July 2020, the terms of the loan were modified, extending the maturity date until August 1, 2023, with monthly payments of principal and interest unchanged. In October 2023, the terms of the loan were once again modified, extending the maturity date until July 1, 2024, with monthly payments of principal and interest unchanged. On July 1, 2024, a balloon payment of all outstanding principal of approximately \$437,000, plus any unpaid interest, is due in full. The loan is collateralized by liens on PTC's theatre building and business assets. The outstanding principal balance of this loan was \$444,707 and \$453,025 as of August 31, 2023 and 2022, respectively. Interest expense related to this loan was \$28,054 and \$28,568 for the years ended August 31, 2023 and 2022, respectively.

Scheduled future maturities of mortgage notes payable as of August 31, 2023 are as follows:

<u>Year Ending August 31,</u>	
2024	\$ 444,707
2025	54,589
2026	56,248
2027	57,960
2028	59,619
Thereafter	<u>1,244,665</u>
	<u>\$ 1,917,788</u>

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE G - NOTES PAYABLE

Notes payable, related parties:

PTC received several unsecured, noninterest-bearing notes from Board members over the years. Some of the loans are payable on demand and classified as current liabilities on the statements of financial position. The total balance of current related party notes payable was \$133,000 as of both August 31, 2023 and 2022. Some of the loans from Board members were payable on demand after February 28, 2025, as of August 31, 2023, and after February 15, 2024, as of August 31, 2022, and are classified as long-term liabilities on the statements of financial position. The total balance of long-term related party notes payable was \$80,000 as of both August 31, 2023 and 2022.

Notes payable:

In conjunction with the purchase of the SRT, PTC obtained a note payable for \$65,000 from a private lender. The note bears interest at 3% per year. No payments are required until September 21, 2031, at which time all principal and accrued interest is due and payable. Interest expense related to this loan was \$1,950 for each of the years ended August 31, 2023 and 2022. The outstanding balance of this note was \$65,000 as of both August 31, 2023 and 2022. Cumulative deferred interest on this loan was \$9,750 and \$7,800 as of August 31, 2023 and 2022, respectively.

In December 2017, PTC obtained a \$1,000,000 note payable from a private lender, less an easement fee of \$155,000, which entitles the lender to use the sign on the outside of PTC's theatre building, for a net amount of \$845,000. The note bears interest at 3%, and matures on March 1, 2025, at which time all unpaid principal and interest are due. There are no required principal payments prior to the maturity date and the maturity date may be extended if certain conditions are met. The loan is collateralized by a mortgage on PTC's theatre building. Interest expense related to this loan was \$25,350 for each of the years ended August 31, 2023 and 2022, respectively. The outstanding balance of this note was \$845,000 as of both August 31, 2023 and 2022. Cumulative deferred interest on this loan was \$110,641 and \$85,291 as of August 31, 2023 and 2022, respectively.

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are subject to expenditures for the following specified purposes as of August 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u> <u>(Restated)</u>
Subject to expenditures for specified purpose:		
Programming	\$ 2,000	\$ 331,099
Studio space upgrades	300,000	300,000
Other	-	4,130
Subject to passage of time:		
Grants and contributions receivable	<u>1,356,291</u>	<u>1,471,861</u>
	<u>\$ 1,658,291</u>	<u>\$ 2,107,090</u>

PHILADELPHIA THEATRE COMPANY

Notes to Financial Statements August 31, 2023 and 2022

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donors as follows for the years ended August 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Programming	\$ 331,099	\$ 13,754
Other	4,130	7,500
Satisfaction of passage of time		
Grants and contributions received	<u>566,666</u>	<u>200,000</u>
	<u>\$ 901,895</u>	<u>\$ 221,254</u>

NOTE I - LEASE COMMITMENTS

PTC has a lease agreement for office space that has been recorded in accordance with ASC 842 as an operating lease. The lease commenced on February 1, 2023 and expires on January 31, 2028. Monthly rent under the lease is \$3,157 for the first year of the lease and then \$3,657 for the remaining four years of the lease term.

PTC also has operating lease agreements for various office equipment with monthly payments ranging from \$34 to \$217, with terms expiring through March 2026.

The liabilities under operating leases are recorded at the present value of the minimum lease payments. Lease expense of \$28,722 for the year ended June 30, 2023, relating to operating leases, consisting of right-of-use assets amortization and lease liability interest, is included in rent expense on the statement of functional expenses.

The following maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of August 31, 2023 is as follows:

<u>Year Ending August 31,</u>	
2024	\$ 46,507
2025	45,283
2026	44,200
2027	42,684
2028	<u>17,785</u>
	196,459
Less: amount representing interest	<u>(11,269)</u>
	<u>\$ 185,190</u>

PHILADELPHIA THEATRE COMPANY

**Notes to Financial Statements
August 31, 2023 and 2022**

NOTE I - LEASE COMMITMENTS (CONTINUED)

	Reported as of August 31, 2023
Current portion of lease liabilities	\$ 39,495
Lease liabilities, net of current portion	<u>145,695</u>
	<u>\$ 185,190</u>

As of August 31, 2023, the operating lease ROU assets and operating lease liabilities related to these agreements were \$182,390 and \$185,190, respectively. The weighted average remaining lease terms of these agreements is 4 years and weighted average discount rate is 3.48%. The total rent expense under these agreements was \$28,722 for the year ended August 31, 2023. The cash paid for amounts included in the measurement of lease liabilities under operating cash flows from operating leases was \$25,922.

During the year ended August 31, 2022, PTC rented space on a month-to-month basis. Rent expense related to this lease amounted to \$25,891 for the year ended August 31, 2022.

NOTE J - EMPLOYEE BENEFIT PLANS

PTC sponsors a defined-contribution 403(b) plan funded by eligible employee contributions, which provides for a discretionary PTC match of 50% of an employee's contribution, not to exceed 3% of an employee's annual salary up to \$80,000. As of January 2018, PTC froze the employer match. There was no pension expense for each of the years ended August 31, 2023 and 2022.

PTC has a nonqualified 457(f) deferred compensation plan, in which employees are eligible for participation after ten years of service, they are actively employed by PTC at the age of 62, and upon designation from the Board. On the first day of the month following Board designation, the beneficiary's account will be credited with a contribution calculated by using 3% of the participant's current salary, multiplied by the number of years and completed months of service. There were no eligible employees and no expense or liability as of or for either of the years ended August 31, 2023 or 2022.

NOTE K - RISKS AND UNCERTAINTIES

PTC's operations and financial performance continue to be adversely impacted by the coronavirus ("COVID-19") and its indirect effects on patron behavior. The impact at PTC is relatively in-line with the effects on the industry at large, as the post-shutdown recovery continues to be slower than anticipated for the performing arts industry, and pandemic related support from the government is starting to diminish. The effect on the future financial statements is uncertain, but PTC is currently interrogating its business model as part of a strategic planning process and will modify or adapt it as necessary to increase the strength of its recovery.

NOTE L - SUBSEQUENT EVENTS

PTC has evaluated subsequent events through January 31, 2024, which is the date the financial statements were available to be issued.