

ROUNABOUT THEATRE COMPANY, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2017



LUTZ AND GARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Roundabout Theatre Company, Inc.

We have audited the accompanying financial statements of Roundabout Theatre Company, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017, and the related statements of operating activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Roundabout Theatre Company, Inc. as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Roundabout Theatre Company, Inc.'s 2016 financial statements, and our report dated January 19, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Lotz + Carr, LLP

New York, New York
December 18, 2017

ROUNABOUT THEATRE COMPANY, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	Unrestricted				Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total	
	Operating	Property and Equipment	Board Designated Endowment	Capital Campaign					Total Unrestricted
Assets									
Cash and cash equivalents	\$19,257,240	\$ -	\$ -	\$ -	\$ 19,257,240	\$ 1,750,876	\$ -	\$ 21,008,116	\$ 18,495,446
Receivables	911,615	15	98	-	911,728	-	-	911,728	606,736
Unconditional promises to give	1,923,000	83,799	-	1,469,812	3,476,611	21,581,286	198,434	25,256,331	18,844,324
Prepaid expenses and deposits	1,476,554	-	-	-	1,476,554	-	-	1,476,554	1,842,353
Prepaid production costs	1,682,109	-	-	-	1,682,109	-	-	1,682,109	6,411,543
Property and equipment	-	52,033,703	-	-	52,033,703	-	-	52,033,703	54,650,126
Investments	285,305	6,112,479	40,366,843	-	46,764,627	683,478	2,022,186	49,470,291	37,885,416
Other assets	20,000	-	-	-	20,000	-	-	20,000	20,000
Interfund	600,803	2,088,060	(1,219,051)	(1,469,812)	-	-	-	-	-
Total Assets	\$26,156,626	\$60,318,056	\$39,147,890	\$ -	\$125,622,572	\$24,015,640	\$ 2,220,620	\$151,858,832	\$138,755,944
Liabilities and Net Assets									
Liabilities									
Accounts payable and accrued expenses	\$ 7,978,749	\$ 124,806	\$ -	\$ -	\$ 8,103,555	\$ -	\$ -	\$ 8,103,555	\$ 10,224,839
Deferred revenue	7,784,388	-	-	-	7,784,388	-	-	7,784,388	13,643,246
Deferred rent	2,299,288	-	-	-	2,299,288	-	-	2,299,288	2,168,167
Loan payable	-	13,564,756	-	-	13,564,756	-	-	13,564,756	13,564,756
Total Liabilities	18,062,425	13,689,562	-	-	31,751,987	-	-	31,751,987	39,601,008
Commitments and Contingencies									
Net Assets									
Unrestricted	8,094,201	46,628,494	39,147,890	-	93,870,585	-	-	93,870,585	79,284,270
Temporarily restricted	-	-	-	-	-	24,015,640	-	24,015,640	17,653,152
Permanently restricted	-	-	-	-	-	-	2,220,620	2,220,620	2,217,514
Total Net Assets	8,094,201	46,628,494	39,147,890	-	93,870,585	24,015,640	2,220,620	120,106,845	99,154,936
Total Liabilities and Net Assets	\$26,156,626	\$60,318,056	\$39,147,890	\$ -	\$125,622,572	\$24,015,640	\$ 2,220,620	\$151,858,832	\$138,755,944

See notes to financial statements.

ROUNABOUT THEATRE COMPANY, INC.

STATEMENT OF OPERATING ACTIVITIES

YEAR ENDED AUGUST 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	Program Services					Supporting Services			2017 Total	2016 Total	
	American Airlines Theatre	Steinberg Center	Studio 54	Extended Programming	Education and Other Programs	Total	General and Administrative	Fundraising			Total
Revenues, Gains and Other Support											
Admissions and subscriptions	\$14,357,490	\$ 6,225,421	\$10,485,082	\$ -	\$ -	\$ 31,067,993	\$ -	\$ -	\$ -	\$31,067,993	\$37,385,049
Contracted touring fees	-	-	-	12,521,633	-	12,521,633	-	-	-	12,521,633	11,021,932
Grants and contributions											
Government, foundations, corporations and individuals	53,632	256,643	154,713	-	1,405,315	1,870,303	-	7,038,677	7,038,677	8,908,980	8,593,259
Special event revenue	-	-	-	-	277,250	277,250	-	3,756,363	3,756,363	4,033,613	4,032,446
Less: Direct benefits to donors	-	-	-	-	-	-	-	(898,732)	(898,732)	(898,732)	(626,048)
Rental income, net of direct expenses of \$7,777,604 (2017 and \$5,694,011 (2016))	-	-	-	-	-	-	7,364,705	-	7,364,705	7,364,705	5,016,971
Other income	113,223	21,606	2,798,869	-	454,249	3,387,947	1,102,376	-	1,102,376	4,490,323	1,975,775
Net investment income	-	-	-	-	-	-	41,702	-	41,702	41,702	171,790
Appropriation from endowment	-	-	-	-	45,261	45,261	77,685	-	77,685	122,946	118,290
Net assets released from restrictions	53,400	709,990	479,110	-	242,100	1,484,600	-	472,430	472,430	1,957,030	2,840,394
Total Revenues, Gains and Other Support	14,577,745	7,213,660	13,917,774	12,521,633	2,424,175	50,654,987	8,586,468	10,368,738	18,955,206	69,610,193	70,529,858
Expenses											
Salaries, taxes and benefits	8,912,409	5,213,263	9,389,306	4,404,703	2,727,004	30,646,685	1,612,441	2,213,442	3,825,883	34,472,568	35,461,500
Sets, costumes, props and other production costs	1,909,175	1,024,201	2,168,194	2,140,741	-	7,242,311	-	-	-	7,242,311	8,176,540
Travel and housing	392,420	171,721	215,019	2,167,100	127,592	3,073,852	11,743	34,564	46,307	3,120,159	2,968,003
Press, publicity and advertising	3,241,100	1,234,988	2,650,684	62,316	111	7,189,199	-	-	-	7,189,199	8,342,234
Royalties	602,418	130,000	176,657	1,903,607	919	2,813,601	-	-	-	2,813,601	2,474,316
Telephone, postage and supplies	159,547	181,154	123,683	22,429	142,918	629,731	92,122	190,242	282,364	912,095	803,623
Special series and event	10,227	6,364	7,174	-	165,541	189,306	45,986	272,513	318,499	507,805	407,321
Printing and publications	157,869	98,245	110,741	-	27,453	394,308	2,850	19,140	21,990	416,298	210,456
Outside services	187,452	146,562	114,041	12,440	152,149	612,644	585,662	57,721	643,383	1,256,027	862,865
Insurance	132,064	55,897	63,006	-	90,736	341,703	223,605	37,651	261,256	602,959	630,589
Rent	645,361	989,869	307,729	-	327,148	2,270,107	578,347	124,384	702,731	2,972,838	3,029,595
Utilities and maintenance	660,510	481,640	356,434	-	128,468	1,627,052	112,321	24,157	136,478	1,763,530	1,858,559
Interest	-	-	261,818	-	-	261,818	-	-	-	261,818	746,227
Depreciation	883,594	598,966	1,432,922	-	557,364	3,472,846	178,002	38,283	216,285	3,689,131	3,531,167
Other expenses	109,723	87,877	118,422	33,319	110,625	459,966	134,152	314,492	448,644	908,610	1,174,573
Total Expenses	18,003,869	10,420,747	17,495,830	10,746,655	4,558,028	61,225,129	3,577,231	3,326,589	6,903,820	68,128,949	70,677,568
Net Increase (Decrease) in Net Assets Before Transfers	\$ (3,426,124)	\$ (3,207,087)	\$ (3,578,056)	\$ 1,774,978	\$ (2,133,853)	\$ (10,570,142)	\$ 5,009,237	\$ 7,042,149	\$12,051,386	\$ 1,481,244	\$ (147,710)

See notes to financial statements.

ROUNABOUT THEATRE COMPANY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	Unrestricted				Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total	
	Operating	Property and Equipment	Board Designated Endowment	Capital Campaign					Total Unrestricted
Revenues, Gains and Other Support									
Admissions and subscriptions	\$31,067,993	\$ -	\$ -	\$ -	\$31,067,993	\$ -	\$ -	\$ 31,067,993	\$37,385,049
Contracted touring fees	12,521,633	-	-	-	12,521,633	-	-	12,521,633	11,021,932
Grants and contributions									
Government, foundations, corporations and individuals	8,908,980	1,774,237	-	3,027,798	13,711,015	13,032,593	3,106	26,746,714	20,680,602
Special event revenue	4,033,613	-	-	-	4,033,613	-	-	4,033,613	4,032,446
Less: Direct benefits to donors	(898,732)	-	-	-	(898,732)	-	-	(898,732)	(626,048)
Rental income, net of direct expenses of \$7,777,604 (2017) and \$5,694,011 (2016)	7,364,705	-	-	-	7,364,705	-	-	7,364,705	5,016,971
Other income	4,490,323	-	-	-	4,490,323	-	-	4,490,323	1,975,775
Net investment income	41,702	607,164	3,631,601	-	4,280,467	245,205	-	4,525,672	2,362,309
Appropriation from endowment	122,946	-	-	-	122,946	(122,946)	-	-	-
Net assets released from restrictions	1,957,030	20,000	-	4,815,334	6,792,364	(6,792,364)	-	-	-
Total Revenues, Gains and Other Support	69,610,193	2,401,401	3,631,601	7,843,132	83,486,327	6,362,488	3,106	89,851,921	81,849,036
Expenses									
Program Services									
American Airlines Theatre	18,003,869	-	-	-	18,003,869	-	-	18,003,869	17,288,703
Steinberg Center	10,420,747	-	-	-	10,420,747	-	-	10,420,747	8,624,620
Studio 54	17,495,830	-	-	-	17,495,830	-	-	17,495,830	25,024,542
Extended programming	10,746,655	-	-	-	10,746,655	-	-	10,746,655	9,018,524
Education and other programs	4,558,028	-	-	-	4,558,028	-	-	4,558,028	3,653,723
Total Program Services	61,225,129	-	-	-	61,225,129	-	-	61,225,129	63,610,112
Supporting Services									
General and administrative	3,577,231	35,378	-	-	3,612,609	-	-	3,612,609	3,809,755
Fundraising	3,326,589	-	-	735,685	4,062,274	-	-	4,062,274	4,271,333
Total Supporting Services	6,903,820	35,378	-	735,685	7,674,883	-	-	7,674,883	8,081,088
Total Expenses	68,128,949	35,378	-	735,685	68,900,012	-	-	68,900,012	71,691,200
Increase in Net Assets Before Other Costs and Transfers	1,481,244	2,366,023	3,631,601	7,107,447	14,586,315	6,362,488	3,106	20,951,909	10,157,836
Other costs related to retirement of bonds payable	-	-	-	-	-	-	-	-	(815,135)
Transfers									
Capital Campaign Funds transfers	510,000	188,160	6,409,287	(7,107,447)	-	-	-	-	-
Transfer depreciation and amortization (\$4,427,081 for 2016)	3,689,131	(3,689,131)	-	-	-	-	-	-	-
Fund property and equipment acquisitions and bond principal payments (\$5,326,874 for 2016)	(1,044,046)	1,044,046	-	-	-	-	-	-	-
Increase (decrease) in net assets	4,636,329	(90,902)	10,040,888	-	14,586,315	6,362,488	3,106	20,951,909	9,342,701
Net assets, beginning of year	3,457,872	46,719,396	29,107,002	-	79,284,270	17,653,152	2,217,514	99,154,936	89,812,235
Net Assets, End of Year	\$ 8,094,201	\$46,628,494	\$39,147,890	\$ -	\$93,870,585	\$24,015,640	\$ 2,220,620	\$120,106,845	\$99,154,936

See notes to financial statements.

ROUNABOUT THEATRE COMPANY, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017	2016
Cash Flows From Operating Activities		
Increase in net assets	\$ 20,951,909	\$ 9,342,701
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	3,689,131	3,531,167
Change in allowance for uncollectible promises to give	52,729	37,315
Bad debt expense	50,000	-
Net realized and unrealized gain on investments	(3,513,440)	(1,574,539)
Amortization of bond issue costs and original issue discount	-	80,779
Permanently restricted contributions	(3,106)	(4,622)
Write-off of bond issue costs and unamortized original issue discount	-	808,963
(Increase) decrease in:		
Receivables	(304,992)	1,287,374
Unconditional promises to give	(6,611,630)	(4,626,406)
Prepaid expenses and deposits	365,799	(349,849)
Prepaid production costs	4,729,434	(4,373,796)
Other assets	-	481,349
Increase (decrease) in:		
Accounts payable and accrued expenses	(2,149,946)	(589,097)
Deferred revenue	(5,858,858)	2,870,591
Deferred rent	131,121	239,681
Net Cash Provided By Operating Activities	11,528,151	7,161,611
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,044,046)	(4,361,630)
Proceeds from sale of investments	48,076,207	10,377,616
Purchases of investments	(56,147,642)	(14,553,125)
Net Cash Used By Investing Activities	(9,115,481)	(8,537,139)
Cash Flows From Financing Activities		
Bond repayment	-	(14,530,000)
Proceeds from loan	-	14,005,000
Loan repayment	-	(440,244)
Permanently restricted contributions received	100,000	100,000
Net Cash Provided (Used) By Financing Activities	100,000	(865,244)
Net increase (decrease) in cash and cash equivalents	2,512,670	(2,240,772)
Cash and cash equivalents, beginning of year	18,495,446	20,736,218
Cash and Cash Equivalents, End of Year	\$ 21,008,116	\$18,495,446
Supplemental Disclosure		
Interest paid	\$ 261,818	\$ 665,449

See notes to financial statements.

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 1 - Organization**

Roundabout Theatre Company, Inc. (the "Theatre") was formed on September 13, 1965 to foster and advance the development of, and to stimulate community interest in, the dramatic and theatrical arts. Currently, the Theatre operates in New York City, presenting both "Broadway" and "Off-Broadway" theatrical productions throughout the year. The Theatre's support comes primarily from admission and subscription revenue and from contributions. The Theatre has been determined to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation.

Note 2 - Summary of Significant Accounting Policies**Basis of Accounting**

The financial statements of the Theatre have been prepared on the accrual basis. The Theatre is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. The accounts of the Theatre are maintained in accordance with the principles of fund accounting. In accordance with fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Theatre considers all highly-liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, excluding those held in its investment portfolio as part of its long-term investment strategies.

Promises to Give

Unconditional promises to give, less allowance for uncollectible amounts, are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Amounts that are expected to be collected within one year are recorded at their net realizable value. Amounts that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contributed revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 2 - Summary of Significant Accounting Policies (continued)****Prepaid Subscription Costs**

Prepaid subscription costs are included in prepaid expenses and represent expenditures related to the next season. These costs include brochures and related marketing expenditures and are charged against revenue over the number of subscription performances of that season.

Prepaid Production Costs

Expenditures incurred for the Theatre's theatrical productions, including such expenditures as actors' fees, physical production costs and pre-production marketing, are prepaid until the first performance date. For productions which occur within a single fiscal year, production costs are expensed. For productions which span more than one fiscal year, production expenses are amortized over the duration of the production using the income forecast method.

Property and Equipment

Property and equipment are stated at cost and include expenditures for new facilities, theatre improvements and equipment, and interest incurred during construction. Expenditures for maintenance and repairs are expensed as incurred. The Theatre provides for depreciation and amortization on a straight-line basis. Theatres are depreciated over forty years and furniture and equipment over a 3-10 year period. Amortization of theatre improvements is over the 40 year expected life of the improvements, while leasehold improvements are amortized over the lesser of the estimated life of the improvements or the lease term.

Donated Equipment and Materials

Donated equipment and materials are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used the contributions are recorded as restricted support. In the absence of such stipulations, contributions of equipment and materials are recorded as unrestricted support.

Investments and Fair Value Measurements

Investments in marketable securities, including all investments in debt securities, are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets in the statement of activities. Investment income is reflected in the statement of activities as a change in unrestricted net assets unless its use is restricted by explicit donor stipulations. Investment income restricted by a donor is reported as a change in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 2 - Summary of Significant Accounting Policies (continued)****Investments and Fair Value Measurements (continued)**

Fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). A fair value hierarchy is used that prioritizes inputs to valuation techniques used to measure fair value into three levels.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Theatre. Unobservable inputs reflect the assumptions developed by the Theatre based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

All of the Theatre's investments are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

The values assigned to these investments and any unrealized gains or losses are reported based on available information and do not necessarily represent amounts that might be realized, and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances, and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

Deferred Rent

The aggregate of the total minimum lease payments is amortized on the straight-line basis over the term of the lease. The difference between the straight-line expense and amounts paid in accordance with the terms of the leases is recorded as deferred rent in the statement of financial position.

Revenue Recognition

Admission and subscription revenue is recognized based on tickets sold for performances conducted during the fiscal year. Season subscription and pre-sale admission revenue received by the Theatre for future performances are deferred. Handling charges are recorded net of expenses.

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 2 - Summary of Significant Accounting Policies (continued)****Contributions**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same fiscal year in which the contribution is received, the Theatre reports the support as unrestricted. Conditional promises to give are not recorded until such time the conditions are substantially met.

Special Events

Special event revenue and costs of direct benefits to donors are reported at the gross amounts on the statement of activities. Costs of direct benefits to donors include the costs that are considered exchange transactions and are not fundraising expenses.

Donated Services

Donated services are recognized as contributions if the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Theatre. Donated services are recognized as contribution revenue and expenses or capitalized as a cost of the Theatre. The nature and extent of additional donated services varies based upon the availability of volunteers who provide assistance with various Theatre programs. These services are not recognized in the Theatre's financial statements since they do not meet the accounting standards criteria for recognition.

Functional Allocation of Expenses

The costs of providing the Theatre's program services and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting services in reasonable ratios as determined by management. The Theatre presents each of its venues as a separate program. Education and Other Programs includes the Theatre's education programs, workshops, play readings, archives and associate artists.

Advertising

The Theatre uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred, except for direct response marketing and other expenses incurred related to the subsequent season's performances that are deferred and recognized in the season when the related revenue is recognized.

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 2 - Summary of Significant Accounting Policies (continued)**Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Theatre evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are considered available to be issued, which was December 18, 2017 for these financial statements.

Note 3 - Restrictions on Assetsa - Unrestricted Net AssetsProperty and Equipment

The Property and Equipment Fund was established to provide for significant improvements to the Theatre's facilities. The income will be retained by the fund to help minimize the impact of inflation on asset replacement costs.

Board Designated Endowment

The Board Designated Endowment Fund was established by the Board of Directors in 1995. Appropriations and transfers are made on a discretionary basis to support the Theatre's operations and activities.

The Board Designated Endowment includes a fund to be used for artistic initiatives at the discretion of the Board. This fund was established by the Board with a grant from the Doris Duke Charitable Foundation.

Capital Campaign

Roundabout launched a \$50 million campaign to build its Board Designated Endowment leading up to the Theatre's 50th anniversary in the 2015/2016 season. The Campaign was completed by August 31, 2017.

Interfund balances between the Operating, Property and Equipment, and Capital Campaign Funds arise from the timing of transfers of funds, primarily related to the receipt of multi-year pledges and temporary interfund borrowings.

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 3 - Restrictions on Assets (continued)

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following future periods or for future programs:

	2017	2016
Grants and Contributions		
Capital Campaign	\$19,171,266	\$13,265,754
Future productions and programs	2,998,840	3,076,388
General operations	<u>1,680,458</u>	<u>1,161,830</u>
	23,850,564	17,503,972
Less: Discount to present value	<u>(518,402)</u>	<u>(412,039)</u>
	23,332,162	17,091,933
Accumulated endowment earnings	<u>683,478</u>	<u>561,219</u>
	<u>\$24,015,640</u>	<u>\$17,653,152</u>

c - Permanently Restricted Net Assets

Permanently restricted net assets consist of donor-designated endowment funds. The endowment principal amounts and purposes, towards which income earned on the principal is to be spent, are as follows as of August 31, 2017 and 2016:

	2017	2016
Todd Haimes Fund for Artistic Excellence	\$ 479,510	\$ 479,510
Education Endowment Fund	1,098,434	1,095,328
General Endowment Fund	<u>642,676</u>	<u>642,676</u>
	<u>\$2,220,620</u>	<u>\$2,217,514</u>

Todd Haimes Fund for Artistic Excellence: Established to honor the leadership and vision of the Theatre's Artistic Director Todd Haimes on his 25th anniversary with the Company, this fund supports productions of plays or musicals whose complexity and scope would be prohibitive within the normal operating budget. The income on these funds are spent towards such productions at the discretion of the Artistic Director.

Education Endowment Fund: This fund supports the Theatre's important work with students and teachers representing the New York City public schools as well as its career development program.

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 3 - Restrictions on Assets (continued)

c - Permanently Restricted Net Assets (continued)

General Endowment Fund: This fund supports the general operating expenses incurred by the Theatre to stage its subscription season.

Note 4 - Promises to Give

Unconditional promises to give are due as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	\$11,371,543	\$ 8,441,217
One to five years	13,736,167	9,798,500
More than five years	<u>1,000,000</u>	<u>1,300,000</u>
	26,107,710	19,539,717
Unamortized discount and allowance for uncollectible accounts	<u>(851,379)</u>	<u>(695,393)</u>
Net Unconditional Promises to Give	<u>\$25,256,331</u>	<u>\$18,844,324</u>

Unconditional promises to give due after one year have been discounted to net present value using discount rates ranging from 0.92% to 2.12% per annum.

The Theatre has received appropriations from the City of New York Department of Cultural Affairs (the "City") for HVAC upgrades. For the year ended August 31, 2017, the Theatre has recognized revenue of \$1,676,000 on two registered contracts. In addition, the City has appropriated \$1.6 million for digital signage. Since a contract has not been registered for this appropriation, and is conditional on the City's approval, it has not been recognized in the accompanying financial statements.

An additional outstanding conditional pledge of \$80,000 has been made by an individual donor. This pledge has not been reflected in the accompanying financial statements since it remains subject to certain conditions.

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 5 - Property and Equipment

Property and equipment consists of the following at August 31:

	<u>2017</u>	<u>2016</u>
Theatre improvements - American Airlines Theatre	\$26,339,565	\$26,288,765
Theatre acquisition and renovation - Studio 54	37,325,988	36,983,247
Leasehold improvements - Steinberg Center	10,745,353	10,632,412
Leasehold improvements - 39 th Street	1,365,427	1,268,514
Leasehold improvements - other	1,014,195	1,014,195
Leasehold improvements - Stephen Sondheim Theatre	8,065,597	7,877,437
Theatre equipment and furniture - American Airlines Theatre	1,000,930	970,252
Theatre equipment - other	4,542,740	4,542,740
Office furniture, equipment and other	<u>3,168,085</u>	<u>2,917,610</u>
	93,567,880	92,495,172
Less: Accumulated depreciation	<u>(41,534,177)</u>	<u>(37,845,046)</u>
Net Book Value	<u>\$52,033,703</u>	<u>\$54,650,126</u>

Included in theatre and leasehold improvements are capital expenditures from the City of New York Department of Cultural Affairs. The City of New York has a security interest in all assets acquired by City funding. The City's investment of capital funds obligates the Theatre to operate its facilities during the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City for cultural, educational or artistic uses and/or related purposes approved by the City.

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 6 - Investments

Investments, which are all classified as Level 1 in the fair value hierarchy, consist of the following at August 31, 2017 and 2016:

	<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,512,230	\$ 1,512,230
Mutual Funds and Exchange Traded Funds		
Fixed income	13,574,128	13,604,366
Equities		
Domestic	18,418,254	20,707,608
International	7,496,200	8,395,971
Emerging Markets	1,794,563	3,205,332
Domestic real estate	1,106,976	1,190,006
International commodities and infrastructure	<u>749,386</u>	<u>854,778</u>
Total	<u>\$44,651,737</u>	<u>\$49,470,291</u>
	<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 6,298,335	\$ 6,298,335
Fixed Income Securities		
Government obligations	2,061,062	2,075,268
Government agencies and mortgage backed securities	762,472	773,052
Municipal bonds	60,000	60,189
Corporate obligations	3,207,019	3,212,937
Equities	7,224,382	8,271,946
Mutual Funds		
Fixed income	2,742,220	2,622,274
Equities	14,249,002	14,261,812
Other Investments		
Real asset funds	<u>308,971</u>	<u>309,603</u>
Total	<u>\$36,913,463</u>	<u>\$37,885,416</u>

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 6 - Investments (continued)

Net investment income consists of the following at August 31:

	2017	2016
Interest and dividend income	\$1,125,578	\$ 898,430
Realized gain (loss)	666,839	(73,386)
Unrealized gain	2,846,601	1,647,925
Investment fees	(113,346)	(110,660)
	\$4,525,672	\$2,362,309

Note 7 - Endowment Funds

The Theatre's endowment consists of funds established for the purposes described in Note 3. Its endowment includes three donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

With respect to its donor-restricted endowments, and consistent with New York State Not-for-Profit Corporation Law and the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the Theatre 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 any 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 Theatre.

NYPMIFA applies only to donor-restricted endowments. In accordance with NYPMIFA, the Theatre considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of the Theatre and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the Theatre;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Theatre; and
- (viii) the investment policy of the Theatre.

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 7 - Endowment Funds (continued)

The Theatre's endowment funds, composition by type of fund and net asset classification, are summarized as follows at August 31:

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$683,478	\$2,022,186	\$ 2,705,664
Board-designated endowment funds	<u>40,366,843</u>	-	-	<u>40,366,843</u>
Total Endowment Funds	<u>\$40,366,843</u>	<u>\$683,478</u>	<u>\$2,022,186</u>	<u>\$43,072,507</u>

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$561,219	\$1,922,186	\$ 2,483,405
Board-designated endowment funds	<u>29,648,252</u>	-	-	<u>29,648,252</u>
Total Endowment Funds	<u>\$29,648,252</u>	<u>\$561,219</u>	<u>\$1,922,186</u>	<u>\$32,131,657</u>

Board-designated endowment funds include a fund originating from the Doris Duke Charitable Foundation Endowment Fund for Artistic Initiatives. The balance of this fund at August 31, 2017 was \$1,869,136.

Changes in endowment funds for the years ended August 31, 2017 and 2016 are summarized as follows:

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$29,648,252	\$561,219	\$1,922,186	\$32,131,657
Net investment income	3,678,232	245,205	-	3,923,437
Contributions received	7,040,359	-	100,000	7,140,359
Appropriation for spending	-	<u>(122,946)</u>	-	<u>(122,946)</u>
Endowment Funds, End of Year	<u>\$40,366,843</u>	<u>\$683,478</u>	<u>\$2,022,186</u>	<u>\$43,072,507</u>

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$22,214,781	\$540,772	\$1,822,186	\$24,577,739
Net investment income	1,635,464	138,737	-	1,774,201
Contributions received	5,798,007	-	100,000	5,898,007
Appropriation for spending	-	<u>(118,290)</u>	-	<u>(118,290)</u>
Endowment Funds, End of Year	<u>\$29,648,252</u>	<u>\$561,219</u>	<u>\$1,922,186</u>	<u>\$32,131,657</u>

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 7 - Endowment Funds (continued)**

The primary investment goal of the Theatre is to maintain and build funds to ensure long-term stability. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity.

To satisfy its long-term objectives, the Theatre relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (dividends).

Unless otherwise specified by the donor, each year, the Board of Directors may appropriate for spending on operations or specific designated projects up to an amount equal to 5% of the three-year average asset value of each Permanent Endowment as calculated on the last day of the preceding fiscal year. In determining whether to appropriate amounts from endowment funds, the Executive Committee shall consider the long and short-term needs of the Theatre in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

Note 8 - Restricted Assets/Letters of Credit

A financial institution has extended the Theatre a \$1,300,000 availability against letters of credit. At August 31, 2017, three letters of credit have been issued against this availability, two in the amounts of \$600,000 and \$137,500 are in lieu of a security deposit under a theatre lease agreement, and the other is a bond with the Actors' Equity Association in the amount of approximately \$340,000.

Note 9 - Loan Payable

During the year ended August 31, 2016, the Theatre became obligated under a term loan in the principal amount of \$14,005,000 secured by certain investments, cash and cash equivalents. The loan will mature in July 2021. The Theatre is required to pay interest only on amounts outstanding at a prevailing rate of one month LIBOR plus 1.05%, and must comply with certain financial and reporting covenants. The Theatre may prepay the term loan in whole or in part at any time without premium or penalty.

During the year ended August 31, 2016, \$440,244 of loan principal was repaid, resulting in an outstanding balance of \$13,564,756 as of August 31, 2016 and 2017. Interest expense on the loan was \$261,818 and \$30,752 for the years ended August 31, 2017 and 2016, respectively.

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 10 - Admission and Subscription Revenue

Admission and subscription revenue consists of the following:

	<u>2017</u>	<u>2016</u>
Subscriptions	\$ 9,744,026	\$11,080,949
Box office	20,957,352	25,698,615
Handling fee revenue	1,026,157	1,461,830
Credit card and handling charges	<u>(659,542)</u>	<u>(856,345)</u>
	<u>\$31,067,993</u>	<u>\$37,385,049</u>

Note 11 - Other Income

Other income consists of the following:

	<u>2017</u>	<u>2016</u>
Concession and catering	\$ 795,027	\$ 832,087
Royalties	375,960	145,927
Education programming	454,249	408,397
Insurance reimbursements	47,033	49,123
Props and scenery sales	3,107	101,000
Production enhancement revenue	2,699,342	200,000
Miscellaneous	69,138	72,899
Filming rights and rights acquisition fees	<u>46,467</u>	<u>166,342</u>
	<u>\$4,490,323</u>	<u>\$1,975,775</u>

Note 12 - Commitments and Contingencies

a - Operating Leases

The Theatre occupies administrative space on West 39th Street under an operating lease with a term that expires December 31, 2029. The lease requires payments subject to annual increases, as well as increases for subsequent increases in taxes. The annual rent for the year ended August 31, 2017 was \$580,664.

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 12 - Commitments and Contingencies (continued)****a - Operating Leases (continued)**

The Theatre occupies the former Selwyn Theatre under a thirty-year operating lease with The New 42nd Street, Inc. (New 42). The Theatre was renamed the American Airlines Theatre. The lease requires annual payments subject to increases by the greater of \$50,000 or the increase in the cost-of-living (NYC INDEX) every sixth year, with a cap on the cost-of-living of 20% of the prior base rent. The rent was reset to \$510,000 at the third review date of August 1, 2016. In addition, New 42 is entitled to 20% of any income derived from signage on the face of the building, and additional rent for certain commercial uses of the facility. The lease has eleven renewal options, each for a term of five years. None of these amounts are reflected in future minimum lease payments detailed below.

The Theatre also occupies a theatre under an operating lease with a term that expires December 31, 2022. The lease provides for a fixed annual rental of \$750,000. This West 46th Street facility was renamed the "Harold and Miriam Steinberg Center for Theatre" in recognition of their foundation's extraordinary commitment to the initial renovations.

In addition, the Theatre occupies the Henry Miller's Theatre under a twenty-year operating lease with the company of a Board member. This facility, located at One Bryant Park, was renamed as the Stephen Sondheim Theatre. Pursuant to the terms of the lease, the Theatre made a payment of \$6 million toward the construction of the theatre. The lease requires annual payments for rent, initially \$250,000 per annum and increasing to \$332,750 over the term of the lease. Additional annual rent is required for real estate taxes (\$230,087 for August 31, 2017) and other building expenses (\$70,000 for August 31, 2017) and for air conditioning (\$120,000 for August 31, 2017), subject to annual increases. The Theatre may also be obligated to pay additional rent based on net rental income as defined in the lease and its subsequent amendments. The lease includes certain restrictions as to the use of the theatre.

The Theatre also leases rehearsal and warehouse facilities under operating leases. Leases for rehearsal spaces expire in 2026; the warehouse space lease expires in 2018. The Theatre also leases various office and production equipment under short-term operating leases.

Total rent expense under these leases was \$3,556,570 and \$4,379,010 for the years ended August 31, 2017 and 2016, respectively.

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 12 - Commitments and Contingencies (continued)

a - Operating Leases (continued)

Future minimum lease payments under these leases are summarized as follows:

<u>Year Ending August 31,</u>	
2018	\$ 3,173,493
2019	3,216,567
2020	3,313,983
2021	3,448,684
2022	3,495,610
Thereafter	19,337,499

b - In 2014, the Theatre entered into a retention agreement with the Executive Director under which, upon the completion of continuous service until February 14, 2020, she will receive \$1 million, payable in equal installments on June 13, 2020, 2021 and 2022. Through August 31, 2017, a cumulative total of \$554,015 has been accrued. Under most circumstances, if the Executive Director was replaced or her duties curtailed other than for "cause" before completing continuous service until February 14, 2020, she would be due an amount equal to one-month base salary for each year of service since 1990, payable over thirty-six months.

c - The Theatre is subject to litigation and legal claims that arise in the ordinary course of its activities. Two pending litigations and one pending claim are for personal injury matters which fall within the Theatre's insurance coverage. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the financial condition of the Theatre.

Note 13 - Fundraising Expenses

Fundraising expenses consisted of the following:

	<u>2017</u>	<u>2016</u>
Annual campaign	\$3,190,675	\$3,149,214
Gala, benefit and special events		
indirect expenses	135,914	222,484
Capital campaign	<u>735,685</u>	<u>899,635</u>
	<u>\$4,062,274</u>	<u>\$4,271,333</u>

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 14 - Pension Plans**

- a - As of August 31, 2017, the Theatre maintains a 401(k) defined contribution plan for all its non-union employees who meet the eligibility requirements. Employees may make voluntary contributions, and the Theatre intends to make discretionary employer contributions, generally 5% of an employee's compensation, subject to statutory limits. This plan was established in July 2017, at which time the Theatre's existing money purchase pension plan was dissolved and the assets transferred directly into the 401(k) plan. Total expense under these plans was \$400,702 and \$375,201 for the years ended August 31, 2017 and 2016, respectively.
- b - The Theatre contributes to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:
- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
 - If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
 - If the Theatre chooses to stop participating in some of its multiemployer plans, the Theatre may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Theatre's participation in these plans is summarized below, including additional information for individually significant plans. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 is for the plan's year-end at December 31, 2016 and December 31, 2015, or if applicable, fiscal year ended during the Theatre's 2017 and 2016 fiscal years, respectively. The zone status is based on information that the Theater received from each plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject, as applicable.

ROUNABOUT THEATRE COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 14 - Pension Plans (continued)

b - (continued)

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Pension Protection Act Zone Status</u>		<u>FIP/RP Status Pending/ Implemented</u>	<u>Contributions of the Theater</u>		<u>Surcharge Imposed</u>	<u>Expiration Date of Collective Bargaining Agreement</u>
		<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>		
American Federation of Musicians and Employers Pension Fund	51-6120204/002	Red	Red	Implemented	\$ 179,569	\$ 205,343	Yes	December 5, 2021
Pension Fund of Wardrobe Attendants Union Local 764	13-6137855/001	Green	Green	N/A	68,223	68,816	No	April 1, 2018
IATSE Pension Fund of Local 1	13-6141973/001	Green	Green	N/A	421,435	416,715	No	Studio 54 3/13/22, Sondheim 7/1/18, AA 2/16/20, Pels 3/18/22
Equity League Pension Trust Fund	13-6696817/001	Green	Green	N/A	341,943	320,083	No	February 13, 2022
League ATPAM Pension Fund	13-2928856/001	Green	Green	N/A	77,830	80,051	No	September 9, 2018
Treasurers & Ticket Sellers Local 751 Pension Fund	13-6164776/001	Green	Green	N/A	90,617	81,477	No	October 20, 2019
United Scenic Artists Local 829 Pension and Welfare Funds	13-1982707/001	Green	Green	N/A	53,809	61,149	No	June 30, 2022
All other multiemployer plans - total of four other plans					<u>131,610</u>	<u>134,680</u>		
					<u>\$1,365,036</u>	<u>\$1,368,314</u>		

None of the Theatre's contributions to the plans listed above are greater than 5% of the total plan contributions.

Note 15 - Collective Bargaining Agreements

A significant portion of the Theatre's actors and theatre staff are employed under the terms of collective bargaining agreements. Approximately 62% of the Theatre's salaries and benefits were paid under these agreements.

ROUNABOUT THEATRE COMPANY, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017****Note 16 - Concentration of Credit Risk**

Financial instruments that potentially subject the Theatre to concentrations of credit risk consist principally of cash and cash equivalent accounts and certificates of deposit in financial institutions. Balances generally exceed federally insured deposit limits. Management of the Theatre does not anticipate nonperformance by the financial institutions and reviews the financial viability of these institutions on a periodic basis.