REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

GEFFEN PLAYHOUSE, INC.

August 31, 2018 and 2017

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Report of Independent Auditors

The Audit Committee of the Board of Directors
Geffen Playhouse, Inc.

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Geffen Playhouse, Inc., which comprise the consolidated statement of financial position as of August 31, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Geffen Playhouse, Inc. as of August 31, 2018 and 2017, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Prior Period Consolidated Financial Statements and Summarized Comparative Information

We have previously audited the Geffen Playhouse, Inc.'s August 31, 2017 consolidated financial statements, and our report dated December 15, 2017, expressed an unmodified audit opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Moss Adams LLP

Los Angeles, California
December 5, 2018

ASSETS

	August 31, 2018	August 31, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 1,069,474	$ 1,196,032
Investments	4,754,524	5,315,744
Current portion of pledges receivable	1,486,152	1,849,565
Other receivables	157,606	131,456
Prepaid expenses and other assets	1,582,773	1,072,846
Total current assets	9,050,529	9,565,643
Leasehold interest in building, net	1,919,272	2,033,855
Property and equipment, net	12,616,310	12,973,673
Pledges receivable, net of current portion	5,900,160	7,384,198
Total assets	$ 29,486,271	$ 31,957,369

LIABILITIES AND NET ASSETS

	August 31, 2018	August 31, 2017
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 265,480	$ 236,508
Deferred revenue	3,110,868	2,988,352
Total current liabilities	3,376,348	3,224,860
Total liabilities	3,376,348	3,224,860
NET ASSETS		
Unrestricted	15,120,861	16,435,508
Temporarily restricted	7,989,062	9,297,001
Permanently restricted	3,000,000	3,000,000
Total net assets	26,109,923	28,732,509
Total liabilities and net assets	$ 29,486,271	$ 31,957,369

Geffen Playhouse, Inc.
Consolidated Statements of Activities
Year Ended 2018 with Summarized Financial Information for the Year Ended 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Years Ended August 31, 2018	Total Years Ended August 31, 2017
REVENUE AND SUPPORT					
Ticket sales	$ 4,831,333	$ -	$ -	$ 4,831,333	$ 5,886,167
Contributions	2,039,343	269,411	-	2,308,754	2,900,468
Special events	2,120,507	-	-	2,120,507	2,051,666
UCLA reimbursed maintenance	464,513	-	-	464,513	436,617
Other income	899,429	-	-	899,429	272,457
Contributed services and in-kind donations	203,714	-	-	203,714	400,325
Interest and investment income, net	60,556	17,400		77,956	57,755
Net assets released from restrictions	1,594,750	(1,594,750)	-	-	-
Total revenues and support	12,214,145	(1,307,939)	-	10,906,206	12,005,455
EXPENSES					
Program services					
Production and education	5,752,349	-	-	5,752,349	5,870,216
Ticket service and front house	1,160,014	-	-	1,160,014	1,150,733
Program promotion	2,206,388	-	-	2,206,388	2,294,750
Facilities	1,265,980	-	-	1,265,980	1,256,709
Fundraising services					
Development	1,262,600	-	-	1,262,600	1,183,453
Special events	706,475	-	-	706,475	696,194
Supporting services					
General and administrative	1,174,986	-	-	1,174,986	1,087,977
Total expenses	13,528,792	-	-	13,528,792	13,540,032
Changes in net assets	(1,314,647)	(1,307,939)	-	(2,622,586)	(1,534,577)
Net assets, beginning of year	16,435,508	9,297,001	3,000,000	28,732,509	30,267,086
Net assets, end of year	$ 15,120,861	$ 7,989,062	$ 3,000,000	$ 26,109,923	$ 28,732,509

See accompanying notes.

	Years Ended August 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (2,622,586)	$ (1,534,577)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Change in discount of pledges receivable	8,638	52,240
Depreciation and amortization	601,310	592,068
Amortization of leasehold interest in building	114,583	114,583
Contributions restricted for long-term purposes	(243,500)	(78,000)
Changes in operating assets and liabilities:		
Pledges receivable	1,838,813	1,460,551
Other receivables	(26,150)	(21,013)
Prepaid expenses and other assets	(509,927)	(173,868)
Accounts payable and accrued expenses	28,972	(138,402)
Deferred revenue	122,516	(89,115)
Net cash (used in) provided by operating activities	(687,331)	184,467
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,450,000	1,600,000
Purchases of investments	(1,888,780)	(1,563,751)
Purchases of property and equipment	(243,947)	(160,827)
Net cash provided by (used in) investing activities	317,273	(124,578)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes	243,500	78,000
Net cash provided by financing activities	243,500	78,000
Change in cash and cash equivalents	(126,558)	137,889
Cash and cash equivalents, beginning of year	1,196,032	1,058,143
Cash and cash equivalents, end of year	$ 1,069,474	$ 1,196,032

See accompanying notes.

Note 1 – Organization

Geffen Playhouse, Inc. (a nonprofit organization) (the "Organization") is devoted to providing professional quality theater through a series of productions, workshops, seminars and play readings for the city of Los Angeles, surrounding counties and the University of California at Los Angeles (UCLA). An active member of the community, the Organization has education and outreach programs that target students, seniors and others who otherwise would not have access to live theater. The Organization strives to produce original, quality works that inspire thought, evoke conversation, and engage the community in the live arts. The Organization, incorporated on August 29, 1994, was previously named Westwood Playhouse, Inc. Geffen Playhouse Films is a wholly-owned for profit entity started and owned by the Organization for purposes of producing and distributing video productions of theatrical performances at the Organization. Geffen Playhouse Films does not have any assets or liabilities, and minimal revenue and expenses, all of which are included within the consolidated financial statements

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation – The consolidated financial statements include the accounts of Geffen Playhouse, Inc. and Geffen Playhouse Films. All significant transactions between the entities have been eliminated in the consolidated financial statements.

Financial statement presentation – The Organization 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. The net assets of the Organization and changes therein are classified and reported as follows:

- **Unrestricted net assets** – Net assets that are not subject to donor imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Organization. Included in unrestricted net assets at August 31, 2018 and 2017 is $2,758,000 and $3,459,000, respectively, of board-designated assets related to the Legacy Fund, which is designated as a reserve fund for future financial use of the Organization.

- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying consolidated financial statements as net assets released from restrictions. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support.

- **Permanently restricted net assets** – Net assets that are restricted by the donors for investment in perpetuity. The investment income generated from these funds is available for general support of the Organization's programs and operations.

Note 2 – Summary of Significant Accounting Policies (continued)

Contributions – Contributions received, including unconditional promises to give, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained permanently, which only the income earned thereon available for current use, are classified as permanently restricted assets. Contributions for which donors have stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support. Contributions received at the Organization's various special events held throughout the year are presented as special events revenue in the consolidated statements of activities.

Unconditional promises to give with payments due in future periods are reported as restricted support and are discounted to net present value at an appropriate discount rate. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promise to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, shall be recognized when the conditions on which they depend are substantially met, when the conditional promise becomes unconditional.

Contributed services and in-kind donations – The Organization has in-kind transactions and recognizes contribution revenue based on the fair value of the goods and services received. During the years ended August 31, 2018 and 2017, the Organization recognized $203,714 and $400,325, respectively, of in-kind donations that are related to the operations of the Organization and have been included in program services in the accompanying consolidated statements of activities. In addition, during the years ended August 31, 2018 and 2017, the Organization recognized $133,276 and $183,382, respectively, of in-kind donations that have been included in special events in the accompanying consolidated statements of activities.

Revenue and expenses recognition – The Organization recognizes revenue and related expenses based on the production season. Revenue from season ticket sales which are received in advance of the related production season is deferred. Expenses (construction sets and props and production) for productions to be presented in subsequent fiscal years are deferred and subsequently expensed in the year in which the production occurs. Concession and merchandise revenue is recognized as items are sold. Ticket handling fees are recognized as tickets are sold. Special event revenue is recognized as it is received or when the event is held. The production season typically is from September 1 to August 31, though occasionally, shows for the upcoming season may begin before September 1.

Note 2 – Summary of Significant Accounting Policies (continued)

Functional allocation of expenses – The costs of providing the various programs and activities has been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Cash and cash equivalents – The Organization considers all highly liquid investments with a maturity at the date of purchase of three months or less to be cash and cash equivalents.

Investments – The Organization invests its funds with the UCLA Foundation in order to maximize the return on its investments. Investments in UCLA's short-term investment pool (STIP), and certificates of deposit are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in the change in net assets. At August 31, 2018 and 2017, the Organization had $57,842 and $49,731, respectively, of short-term investments consisting of certificates of deposit.

Certificates of deposit are valued based on investment yield. The short-term investment pool is valued based on net asset value of shares held by the Organization at year end. The fair value of the STIP is based on information provided by the UCLA Foundation fund managers at the most recent valuation date prior to fiscal year-end adjusted for certain cash flows. Management agrees with the assumptions used and fair values determined by the Foundation fund managers. Management monitors the activity of the STIP and performs reconciliations and other procedures to assure that the valuation used in the consolidated financial statements are accurately stated.

The Organization receives a pro rata share of the income from the investment pool. Shares of the STIP are purchased or redeemed at a constant value of $1 per share. The investments of the pool are comprised of banker's acceptance instruments, commercial paper, corporate debt securities, and United States government and agency obligations. These funds are available to the Organization at any time subject to a maximum of two withdrawals per month. At August 31, 2018 and 2017, the Organization had $918,499 and $5,266,013, respectively, of funds held by the UCLA Foundation.

On August 31, 2018, the Organization transferred its endowed funds previously held by the UCLA Foundation to the UC Regents. Beneficial interests in the UC Regent's total investment return pool (TRIP) and general endowment pool (GEP) are reported at their fair values in the consolidated statements of financial position. Beneficial interests are classified within Level 3 of the fair value hierarchy. Securities classified within Level 3 are based on valuations provided by the external investment managers. Management, in conjunction with the external investment advisor monitors the valuation of the investments periodically throughout the year. The valuations consider variables such as fair value principles, net asset value, and other recognized fair values of underlying securities. Realized and unrealized gains and losses are included in the change in net assets. Transfers between hierarchy levels are recognized at the end of the fiscal year. The current year transfers from NAV to Level 3 were due to change in investment type. The value of the beneficial interest balance was $3,778,183 as of August 31, 2018.

Note 2 – Summary of Significant Accounting Policies (continued)

Pledges receivable – Unconditional promises to give are recorded, at their estimated net realizable value, as receivables and gift revenues and require the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions to be received after one year are discounted at an appropriate discount rate, ranging from 2.46% to 3.02%, commensurate with the risks involved and recorded in their respective net asset category. An allowance for uncollectible pledges receivable may be provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. At August 31, 2018 and 2017, no allowance has been provided.

Property and equipment – Property and equipment are stated at cost if purchased or fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally between three and ten years. Expenditures for major renewals and improvements that extend the useful lives of the property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized using the straight-line method ranging from ten to forty years, or the shorter of the estimated useful life of the asset or the lease term. The Organization maintains a capitalization policy for expenditures in excess of $1,500.

Long-lived assets – The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment losses, if any, are recognized when estimated future cash flows (undiscounted and without interest charges) derived from such assets are less than their carrying values. No impairment losses were recognized during the years ended August 31, 2018 and 2017.

Income taxes – The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701 (d) of the Revenue Taxation Code of California. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements.

During the year ended August 31, 2018, the Organization performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the consolidated financial statements or which may have an effect on its tax exempt status.

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

Reclassifications – Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. These reclassifications have had no net effect on the ending balance of net assets as of August 31, 2017.

Note 2 – Summary of Significant Accounting Policies (continued)

Advertising – Advertising costs are expensed as incurred except for direct response advertising, which is capitalized and amortized over its expected period of future benefits, not to exceed 12 months. Direct response advertising consists primarily of the Organization's annual brochures for the following season subscriptions and the marketing of ticket sales to specific individuals. Advertising expense was $1,468,408 and $1,719,119 for the years ended August 31, 2018 and 2017, respectively. At August 31, 2018 and 2017, direct response advertising included in prepaid expenses and other is $649,025 and $370,547, respectively.

Legal proceedings – From time to time, the Organization is party to various legal proceedings incidental to its business. In the opinion of management, none of these items, individually or in the aggregate, would have a significant effect on the financial position, change in net assets, cash flows or liquidity of the Organization.

Recently issued accounting pronouncement – In August 2016 the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are a decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requiring reporting of expenses by function and nature, as well as enhanced endowment disclosures. This standard is effective for all fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact of this standard.

Note 3 – Concentrations of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, investments and pledges receivable.

The investment policy limits the Organization's exposure to concentrations of credit risk. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated statements of financial position.

Cash and cash equivalents generally consist of cash and highly liquid investments with an initial maturity of three months or less. These securities are primarily held at one financial institution and are insured by the Federal Deposit Insurance Corporation (FDIC) coverage up to $250,000. At times during the year, cash in these accounts may exceed the federally insured amounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

At August 31, 2018 and 2017, approximately 22% and 21%, respectively, of the Organization's pledges receivable were from one donor.

Note 4 – Investments and Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses the market or income approach. Based on this approach, the Organization utilizes certain assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. As a basis for considering such assumptions, the organization uses a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the fiscal years ended August 31, 2018 and 2017, the application of valuation techniques applied to similar assets has been consistent. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement.

The Organization’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

Financial instruments included in the Organization’s consolidated statements of financial position include cash and cash equivalents, investments, receivables and accounts payable and accrued expenses. For cash and cash equivalents, receivables and accounts payable and accrued expenses, the carrying amounts represent a reasonable estimate of fair values due to their short-term maturities. Investments are reflected at estimated fair value as described above.

Note 4 – Investments and Fair Value Measurements (continued)

Financial assets carried at recurring fair value at August 31, 2018 and 2017, are classified as follows:

2018	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	Total
Investments	$ -	$ -	$ -	$ 918,499	$ 918,499
Beneficial interests	-	-	3,778,183	-	3,778,183
Certificates of deposit	-	57,842	-	-	57,842
Total	$ -	$ 57,842	$ 3,778,183	$ 918,499	$ 4,754,524

2017	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	Total
Investments	$ -	$ -	$ -	$ 5,266,013	$ 5,266,013
Certificates of deposit	-	49,731	-	-	49,731
Total	$ -	$ 49,731	$ -	$ 5,266,013	$ 5,315,744

For the year ended August 31, 2018, the changes in financial assets classified as Level 3 are as follows:

	Beneficial Interests held at UC Regents
Balance, beginning of year	$ -
Transfers	3,778,183
Balance, end of year	$ 3,778,183

The Organization’s financial assets that are valued using the fair value practical expedient of net asset value and are summarized as follows:

	Fair Value, August 31, 2018	Redemption Frequency	Redemption Notice Period
Funds held in UCLA Foundation's STIP	$ 918,499	monthly	two days
Total	$ 918,499		

The organization had no unfunded commitments as of August 31, 2018 and 2017.

Note 4 – Investments and Fair Value Measurements (continued)

The following table represents the Organization's Level 3 financial instrument as of August 31, 2018, the valuation technique used to measure the fair value of the financial instrument and the significant unobservable input and the ranges of values for that input:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Input	Range
Beneficial interests held at UC Regents	$ 3,778,183	Market Approach	Underlying Assets	N/A

Note 5 – Unconditional Pledges Receivable

Pledges are initially recorded at fair value, by discounting to the present value of future cash flows at rates ranging from 2.5% to 3.0%. Pledges receivable are recorded as follows at August 31:

	2018	2017
Amounts due		
In less than one year	$ 1,486,152	$ 1,849,565
In one to five years	4,901,891	5,050,400
In six years and after	1,800,000	3,126,891
Total gross pledges receivable	8,188,043	10,026,856
Less present value discount	(801,731)	(793,093)
Total pledges receivable, net	7,386,312	9,233,763
Less current portion of pledges receivable, net	(1,486,152)	(1,849,565)
Pledges receivable, net of current portion	$ 5,900,160	$ 7,384,198

At August 31, 2018 and 2017, the Organization has not provided for an allowance for uncollectible pledges, as all amounts are considered fully collectible.

Note 6 – Leasehold Interest in Building

The Organization leases its facilities from UCLA at a rate of $1 per year under an original 30-year lease which commenced in May 1995. In April 2003, the lease term was extended to 55 years to expire in May 2050. In March 2010, the lease term was reduced by four years to expire in May 2046. At the inception date of the original lease, the fair value of the building was approximately $5,000,000. This amount was recognized in prior years as a contribution and a leasehold interest. The unamortized leasehold interest is reflected in the accompanying consolidated statements of financial position as a temporarily restricted net asset and is being amortized over the lease term of 51 years.

Note 6 – Leasehold Interest in Building (continued)

At August 31, 2018 and 2017, the unamortized leasehold interest is $1,919,272 and $2,033,855, respectively. Amortization expense for the years ended August 31, 2018 and 2017 was $114,583.

Note 7 – Property and Equipment

At August 31, 2018 and 2017, property and equipment consisted of the following:

	2018	2017
Equipment	$ 1,948,541	$ 1,812,152
Furniture and fixtures	671,974	564,416
Leasehold improvements	17,769,518	17,769,518
Less accumulated depreciation and amortization	(7,773,723)	(7,172,413)
	$ 12,616,310	$ 12,973,673

Depreciation and amortization expense for the years ended August 31, 2018 and 2017 was $601,310 and $592,068, respectively.

Note 8 – Line of Credit

In October 2012, the Organization entered into a line of credit agreement with a bank for a $500,000 line of credit. The line expired on April 14, 2018 and was subsequently extended to April 14, 2019. Advances under the line of credit bear interest at the current prime rate (7% at August 31, 2018) and are secured by property held by the Organization. As of August 31, 2018 and 2017, there were no outstanding borrowings on the line of credit.

Note 9 – Lease Commitments

The Organization leases certain office equipment under a noncancelable operating lease agreement that expired on March 2018. Total rent expense under the lease was $52,658 and $57,710, respectively, for the years ended August 31, 2018 and 2017. In addition, the Organization has noncancelable operating lease agreements on a storage space and an office space that expires September 2024. Total rent expense under these leases were $31,572 and $39,248, respectively, for the years ended August 31, 2018 and 2017.

Note 9 – Lease Commitments (continued)

The following is a schedule of the Organization's minimum lease requirements under these non-cancelable leases:

Years Ending August 31,		
2019	$	15,468
2020		15,468
2021		15,468
2022		15,468
2023		15,468
Thereafter		30,936
Total	$	108,276

Note 10 – Temporarily Restricted Net Assets

At August 31, 2018 and 2017, temporarily restricted net assets consisted of the following:

	Available August 31, 2018	Available August 31, 2017
Time restricted, pledges receivable	$ 6,039,738	$ 7,250,494
Time restricted, cash	30,052	12,652
Time restricted, leasehold interest in building	1,919,272	2,033,855
Total	$ 7,989,062	$ 9,297,001

Note 11 – Endowments

The Board of Directors of the Organization has interpreted the California Prudent Management of Institutional Funds Act (CPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Playhouse classifies as permanently restricted net assets at (*a*) the original value of gifts donated to the permanent endowment, (*b*) the original value of subsequent gifts to the permanent endowment, and (*c*) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by CPMIFA.

Note 11 – Endowments (continued)

Return objectives and risk parameters – The Organization has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The endowment assets are held at the UC Regents, consistent with their non-endowment portion of their investment portfolio, as such the strategies employed for managing the endowment funds are consistent with those of the entire investment portfolio.

Strategies employed for achieving investment objectives – To achieve its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends).

Endowment Spending policy and relationship to investment objectives – The Board of Directors of the Organization determines the method to be used to appropriate endowment funds for expenditure. It is the policy of the Board to annually review earnings on the endowment and determine the amounts to be appropriated for use in ongoing operations. In establishing this policy, the Board considered the expected long-term rate of return on its endowment and investment portfolio taken as a whole. The Board of Trustees of the Organization, in setting the endowment spending policy, considered the following factors: 1) preservation of asset values, 2) preservation of purchasing power, and 3) consistency of spending over time. The Organization's Board of Directors spending adopted policy was established with a view toward balancing the need for expendable funds for the Organization's programs against the need to preserve the endowment against inflation.

In accordance with CPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund
b. The purposes of the Organization and the donor-restricted endowment fund
c. General economic conditions
d. The possible effect of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the Organization
g. The investment policies of the Organization

Endowments by net asset class, in total and by funds, as of August 31, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor - restricted endowment funds	$ -	$ 30,052	$ 3,000,000	$ 3,030,052

Note 11 – Endowments (continued)

Endowments by net asset class, in total and by funds, as of August 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor - restricted endowment funds	$ -	$ 12,652	$ 3,000,000	$ 3,012,652

Changes in endowment net assets for the fiscal year ended August 31, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 12,652	$ 3,000,000	$ 3,012,652
Investment income	-	17,400	-	17,400
Total investment return	-	30,052	3,000,000	3,030,052
Endowment net assets, end of year	$ -	$ 30,052	$ 3,000,000	$ 3,030,052

Changes in endowment net assets for the fiscal year ended August 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 4,576	$ 3,000,000	$ 3,004,576
Investment income	-	8,076	-	8,076
Total investment return	-	12,652	3,000,000	3,012,652
Endowment net assets, end of year	$ -	$ 12,652	$ 3,000,000	$ 3,012,652

Note 12 – Related Party Transactions

The Organization has an affiliation agreement with UCLA under which the Organization must provide artistic programming to the community and educational/professional opportunities for UCLA theater students. UCLA may appoint five members to the Organization’s Board of Directors.

Note 12 – Related Party Transactions (continued)

Under the lease agreement with UCLA, the Organization incurs expenses for the maintenance of the facility, which are either paid directly or reimbursed by UCLA. Accordingly, the Organization recognizes certain maintenance expenses as incurred and records the reimbursement from UCLA as support. For the years ended August 31, 2018 and 2017, UCLA reimbursed the Organization $464,513 and $436,617, respectively, for maintenance expenses. At August 31, 2018 and 2017, the Organization has a receivable from UCLA of $91,954 and $91,621, respectively, which is included in other receivables in the accompanying consolidated statements of financial position.

As disclosed in Note 4, at August 31, 2018 and 2017, the Organization had $4,696,682 of funds held by the UCLA Foundation and UC Regents and $5,266,013 of funds held by the UCLA Foundation, respectively.

During the years ended August 31, 2018 and 2017, a relative of a member of management provided information technology consulting services to the Organization. During the year ended August 31, 2018, the information technology consulting service expense was $105,300 of which none was payable at year end. During the year ended August 31, 2017, the information technology consulting service expense was $114,784 of which $200 was payable at year end.

During the years ended August 31, 2018 and 2017, 64% and 66% of contributions were from related parties, respectively.

Note 13 – Employee Benefit Plans

The Organization maintains a 401(k) profit sharing plan available to all full time employees after completing one year of service, except those who are covered by a collective bargaining agreement. The retirement plan is subject to a discretionary employer contribution. For the years ended August 31, 2018 and 2017, no contributions were made by the Organization.

Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before consolidated financial statements are available to be issued. The Organization has evaluated subsequent events through December 5, 2018, which is the date the consolidated financial statements were available to be issued.