REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

GEFFEN PLAYHOUSE, INC.

August 31, 2020 and 2019

Table of Contents

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, 2020, 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, 2020, and the change in their net assets and their cash flows for the year 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, 2019 consolidated financial statements, and our report dated December 9, 2019, 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, 2019, 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 7, 2020

ASSETS

	August 31, 2020	August 31, 2019
CURRENT ASSETS		
Cash and cash equivalents	$ 1,329,848	$ 688,860
Investments	6,903,926	5,386,849
Pledges receivable	2,010,480	1,319,480
Other receivables	130,708	135,455
Prepaid expenses and other assets	584,720	1,878,957
Total current assets	10,959,682	9,409,601
LEASEHOLD INTEREST IN BUILDING, net	1,690,106	1,804,689
PROPERTY AND EQUIPMENT, net	11,992,603	12,322,808
PLEDGES RECEIVABLE, net of current portion	3,279,060	4,787,354
Total assets	$ 27,921,451	$ 28,324,452

LIABILITIES AND NET ASSETS

	2020	2019
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 392,519	$ 251,756
Deferred revenue	4,782,018	3,795,778
Line of credit and note payable	1,250,660	-
Total current liabilities	6,425,197	4,047,534
Total liabilities	6,425,197	4,047,534
NET ASSETS		
Without donor restrictions	13,233,580	14,478,152
With donor restrictions	8,262,674	9,798,766
Total net assets	21,496,254	24,276,918
Total liabilities and net assets	$ 27,921,451	$ 28,324,452

Geffen Playhouse, Inc.
Consolidated Statement of Activities

	Year Ended August 31, 2020			
	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
OPERATING REVENUE				
Ticket sales	$ 4,727,656	$ -	$ 4,727,656	$ 6,762,838
UCLA reimbursed maintenance	499,688	-	499,688	515,612
Other income	165,292	-	165,292	170,492
Innovation	500,000	-	500,000	341,055
Production enhancement	175,000	-	175,000	997,000
Interest and investment income, net	33,506	-	33,506	137,482
Total operating revenue	6,101,142	-	6,101,142	8,924,479
OPERATING EXPENSES				
Program services	11,887,269	-	11,887,269	12,977,870
Management and general	1,323,467	-	1,323,467	1,279,478
Total operating expenses	13,210,736	-	13,210,736	14,257,348
Operating loss	(7,109,594)	-	(7,109,594)	(5,332,869)
CONTRIBUTED INCOME				
Contributions	4,939,088	101,706	5,040,794	2,511,224
Net assets released from restrictions	1,890,133	(1,890,133)	-	-
Total contributed income	6,829,221	(1,788,427)	5,040,794	2,511,224
NON-OPERATING REVENUES				
Special events	1,014,503	-	1,014,503	2,229,680
Government grants	97,280	92,480	189,760	93,800
Endowment earnings	-	159,855	159,855	75,491
Contributed services and in-kind donations	59,833	-	59,833	384,885
Total non-operating revenues	8,000,837	(1,536,092)	6,464,745	5,295,080
NON-OPERATING EXPENSES				
Fundraising services	1,788,706	-	1,788,706	1,175,617
Special events	347,109	-	347,109	619,599
Total non-operating expenses	2,135,815	-	2,135,815	1,795,216
Net non-operating income (loss)	5,865,022	(1,536,092)	4,328,930	3,499,864
CHANGES IN NET ASSETS	(1,244,572)	(1,536,092)	(2,780,664)	(1,833,005)
NET ASSETS, beginning of year	14,478,152	9,798,766	24,276,918	26,109,923
NET ASSETS, end of year	$ 13,233,580	$ 8,262,674	$ 21,496,254	$ 24,276,918

See accompanying notes.

	Years Ended August 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,780,664)	$ (1,833,005)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Change in discount of pledges receivable	(186,706)	(417,194)
Depreciation and amortization	655,061	612,736
Amortization of leasehold interest in building	114,583	114,583
Contributions restricted for long-term purposes	-	(35,000)
Changes in operating assets and liabilities		
Pledges receivable	1,004,000	1,696,672
Other receivables	4,747	22,151
Prepaid expenses and other assets	1,294,238	(296,184)
Accounts payable and accrued expenses	140,763	(13,725)
Deferred revenue	986,240	684,910
Net cash provided by operating activities	1,232,262	535,944
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	3,449,542	1,750,000
Purchases of investments	(4,966,621)	(2,382,325)
Purchases of property and equipment	(324,855)	(319,233)
Net cash used in investing activities	(1,841,934)	(951,558)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt	1,250,660	-
Proceeds from contributions restricted for long-term purposes	-	35,000
Net cash provided by financing activities	1,250,660	35,000
CHANGE IN CASH AND CASH EQUIVALENTS	640,988	(380,614)
CASH AND CASH EQUIVALENTS, beginning of year	688,860	1,069,474
CASH AND CASH EQUIVALENTS, end of year	$ 1,329,848	$ 688,860
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 25,916	$ -

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.

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 (U.S. GAAP).

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 classifies revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* – 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 net assets without donor restrictions are certain funds designated by the Board.

- *Net assets with donor restrictions* – 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, and net assets that are restricted by the donors for investment in perpetuity. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 support without donor restrictions.

Note 2 – Summary of Significant Accounting Policies (continued)

Contributions – Contributions received, including unconditional promises to give, are recorded as support with or without donor restrictions 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 support with donor restrictions if the restrictions are not met in the same reporting period. Contributions of assets which donors have stipulated must be maintained in perpetuity, which only the income earned thereon available for current use, are classified as assets with donor restrictions. 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 support with donor restrictions and are discounted to net present value at an appropriate discount rate. Gifts of land, buildings, and equipment are reported as support without donor restrictions 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 support with donor restrictions. Absent explicit donor stipulation, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

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, 2020 and 2019, the Organization recognized $59,833 and $384,885, 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 statement of activities. In addition, during the years ended August 31, 2020 and 2019, the Organization recognized $0 and $93,403, respectively, of in-kind donations of goods that have been included in special events in the accompanying consolidated statements of activities.

Government grants – Individual governmental grant arrangements have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution—when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when funding is granted to the Organization.

Production enhancements – Production enhancements represent funds received from others to expand budgets for specific productions. Revenue is recognized when the performance obligations present in the associated agreements are completed, which is generally when the related performance is performed.

Innovation – Innovation revenues represent funds received from others to expand filming, streaming, and podcast of Geffen Productions and produce Broadway productions. Revenue is recognized when the productions are completed.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Functional allocation of expenses – The costs of providing the various programs and activities has been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Depreciation, interest, and facilities costs are allocated to functional categories based on square footage dedicated to the specific function. Labor is allocated to functional categories based on time spent on activities within each function.

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 – Investments 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.

Certificates of deposit are valued based on investment yield. UCLA Foundation's short-term investment pool (STIP) 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, 2020 and 2019, the Organization had $4,527,717 and $584,445, respectively, of funds held by the UCLA Foundation.

Note 2 – Summary of Significant Accounting Policies (continued)

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. There were no transfers between hierarchy levels for the year ended August 31, 2020. For the year ended August 31, 2019, transfers from NAV to Level 3 were due to change in investment type. The value of the beneficial interest balance was $2,376,209 and $4,744,562 as of August 31, 2020 and 2019, respectively.

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 0.14% to 1.49%, 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, 2020 and 2019, 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 10–40 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, 2020 and 2019.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

During the year ended August 31, 2020, 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 U.S. GAAP 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.

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 $348,783 and $1,709,264 for the years ended August 31, 2020 and 2019, respectively. At August 31, 2020 and 2019, direct-response advertising included in prepaid expenses and other is $199,968 and $616,313, respectively.

Accounting standards adopted – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU was issued to provide clarification to not-for-profit entities as they adopt ASU 2014-09, *Revenue from Contracts with Customers*, specifically as it relates to grants and contracts and distinguishing between reciprocal (exchange) transactions and nonreciprocal (contributions) transactions. The Organization has adopted ASU 2018-08 as of September 1, 2019, using the modified prospective method. No impact on the change in net assets resulted from the adoption of the ASU.

Recently issued accounting pronouncement – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries. The guidance is effective for fiscal years beginning after December 15, 2019. The Organization plans to adopt this update in their financial statements for the year ending August 31, 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This guidance requires the recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the statement of financial position. The guidance is effective for fiscal years beginning after December 15, 2021. The Organization plans to adopt this update in their financial statements for the year ending August 31, 2023.

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.

Note 3 – Concentrations of Credit Risk (continued)

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, 2020 and 2019, approximately 27% and 23%, 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 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 two inputs and the three-tier hierarchy 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.

Note 4 – Investments and Fair Value Measurements (continued)

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, 2020 and 2019, 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 assets carried at recurring fair value at August 31, 2020 and 2019, are classified as follows:

	2020				
	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	Total
Investments					
Pooled investment fund	$ -	$ -	$ -	$ 4,527,717	$ 4,527,717
Beneficial interests	-	-	2,376,209	-	2,376,209
Total	$ -	$ -	$ 2,376,209	$ 4,527,717	$ 6,903,926

	2019				
	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	Total
Investments					
Pooled investment fund	$ -	$ -	$ -	$ 584,445	$ 584,445
Beneficial interests	-	-	4,744,562	-	4,744,562
Certificates of deposit	-	57,842	-	-	57,842
Total	$ -	$ 57,842	$ 4,744,562	$ 584,445	$ 5,386,849

Note 4 – Investments and Fair Value Measurements (continued)

For the years ended August 31, 2020 and 2019, the changes in financial assets classified as Level 3 are as follows:

	Beneficial Interests Held at UC Regents
BALANCE, August 31, 2018	$ 3,778,183
Contributions	760,000
Realized and unrealized gain, net	182,294
Interest income	24,085
BALANCE, August 31, 2019	$ 4,744,562
Withdrawals	(2,546,702)
Realized and unrealized gain, net	46,036
Interest income	132,313
BALANCE, August 31, 2020	$ 2,376,209

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, 2020	Redemption Frequency	Redemption Notice Period
Funds held in UCLA Foundation's STIP	$ 4,527,717	Monthly	Two days
Total	$ 4,527,717		

The organization had no unfunded commitments as of August 31, 2020.

The following table represents the Organization's Level 3 financial instrument as of August 31, 2020, 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, which were unchanged from the year ended August 31, 2019:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Input	Range
Beneficial interests held at UC Regents	$ 2,376,209	Market Approach	Underlying Assets	N/A

Note 5 – Pledges Receivable

Pledges are initially recorded at fair value, by discounting to the present value of future cash flows at rates ranging from 0.14% to 1.49%. Pledges receivable are recorded as follows at August 31:

	2020	2019
Amounts due		
In less than one year	$ 2,010,480	$ 1,319,480
In one to five years	2,751,891	4,401,891
In six years and after	725,000	770,000
Total gross pledges receivable	5,487,371	6,491,371
Less: present value discount	(197,831)	(384,537)
Total pledges receivable, net	5,289,540	6,106,834
Less: current portion of pledges receivable, net	(2,010,480)	(1,319,480)
Pledges receivable, net of current portion	$ 3,279,060	$ 4,787,354

At August 31, 2020 and 2019, 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 net asset with donor restrictions and is being amortized over the lease term of 51 years.

At August 31, 2020 and 2019, the unamortized leasehold interest is $1,690,106 and $1,804,689, respectively. Amortization expense for the years ended August 31, 2020 and 2019, was $114,583 and $114,583, respectively.

Note 7 – Property and Equipment

At August 31, 2020 and 2019, property and equipment consisted of the following:

	2020	2019
Equipment	$ 2,526,240	$ 2,243,493
Furniture and fixtures	738,364	696,256
Leasehold improvements	17,769,520	17,769,518
Less: accumulated depreciation and amortization	(9,041,521)	(8,386,459)
	$ 11,992,603	$ 12,322,808

Depreciation and amortization expense for the years ended August 31, 2020 and 2019, was $655,061 and $612,736, respectively.

Note 8 – Line of Credit and Note Payable

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, 2019, and was subsequently extended to April 4, 2021. Advances under the line of credit bear interest at the current prime rate (5.25% at August 31, 2020), and are secured by property held by the Organization. As of August 31, 2020, there was $490,000 outstanding on the line of credit. As of August 31, 2019, there were no outstanding borrowings on the line of credit.

In response to the COVID-19 pandemic, in April 2020, the Organization participated in the Small Business Administration Paycheck Protection Program and obtained a loan to fund its payroll costs. The loan is forgivable to the extent it is used for certain allowable costs during the 24 weeks after funding. Allowable costs include payroll-related costs, rent payments, interest on covered debt, and payments for covered utilities. The Organization plans to apply for forgiveness during the loan forgiveness. To the extent it is not forgiven, the loan bears interests at 1% and has a maturity date of April 23, 2022. No payments are due on the loan for six months from the disbursement date; however, interest accrues during the deferment period. Payments of principal and interest are due monthly thereafter. As of August 31, 2020, the amount of principal outstanding was $760,660. Management anticipates forgiveness of the loan during the fiscal year ending August 31, 2021, and considers the note current.

Note 9 – Lease Commitments

The Organization leased certain office equipment under noncancelable operating lease agreements expiring in September 2024 and March 2025. Total rent expense under the leases were $59,573 and $46,421, respectively, for the years ended August 31, 2020 and 2019. 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 $57,143 and $49,534, respectively, for the years ended August 31, 2020 and 2019.

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,	
2021	$ 76,068
2022	76,068
2023	76,068
2024	76,068
2025	48,850
Total	$ 353,122

Note 10 – Net Assets

At August 31, 2020 and 2019, net assets without donor restrictions consisted of the following:

	2020	2019
Undesignated	$ 9,970,524	$ 11,233,590
Board-designated net assets	3,263,056	3,244,562
	$ 13,233,580	$ 14,478,152

At August 31, 2020 and 2019, net assets with donor restrictions consisted of the following:

	2020	2019
Time restricted, pledges receivable	$ 3,307,170	$ 4,888,534
Time restricted, cash, accumulated earnings	265,398	105,543
Time restricted, leasehold interest in building	1,690,106	1,804,689
Perpetually restricted	3,000,000	3,000,000
Total	$ 8,262,674	$ 9,798,766

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 Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by CPMIFA.

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' adopted spending 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.

Note 11 – Endowments (continued)

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

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Changes in endowment net assets for the fiscal year ended August 31, 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
ENDOWMENT NET ASSETS, beginning of year	$ -	$ 3,105,543	$ 3,105,543
Investment income, net of investment expenses	-	159,855	159,855
Total investment return	-	159,855	159,855
ENDOWMENT NET ASSETS, end of year	$ -	$ 3,265,398	$ 3,265,398

Changes in endowment net assets for the fiscal year ended August 31, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
ENDOWMENT NET ASSETS, beginning of year	$ -	$ 3,030,052	$ 3,030,052
Investment income, net of investment expenses	-	75,491	75,491
Total investment return	-	75,491	75,491
ENDOWMENT NET ASSETS, end of year	$ -	$ 3,105,543	$ 3,105,543

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets without donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new restricted contributions and continued appropriation for certain programs was deemed prudent by the Board of Directors. At August 31, 2020 and 2019, there were no funds with deficiencies.

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.

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, 2020 and 2019, UCLA reimbursed the Organization $450,189 and $515,612, respectively, for maintenance expenses. At August 31, 2020 and 2019, the Organization has a receivable from UCLA of $118,100 and $129,711, respectively, which is included in other receivables in the accompanying consolidated statements of financial position.

As disclosed in Note 4, the Organization had funds held by the UCLA Foundation and UC Regents totaling $6,903,926 and $5,329,007, at August 31, 2020 and 2019, respectively.

During the years ended August 31, 2020 and 2019, a relative of a member of management provided information technology consulting services to the Organization. During the year ended August 31, 2020, the information technology consulting service expense was $64,756, of which $180 was payable at year end. During the year ended August 31, 2019, the information technology consulting service expense was $110,306, of which none was payable at year end.

During the years ended August 31, 2020 and 2019, 55% and 62% of contributions were from related parties, respectively.

Note 13 – Employee Benefit Plan

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, 2020 and 2019, no contributions were made by the Organization.

Note 14 – Expenses by Natural Classification

Expenses by function and nature consist of the following for the year ended August 31, 2020:

	Program Services	Management and General	Fundraising	Special Events	Supporting Services	Total
Salaries and related expenses						
Salaries and wages	$ 4,133,111	$ 757,366	$ 476,500	$ 25,420	$ 1,259,286	$ 5,392,397
Other employee benefit	439,481	46,654	38,771	-	85,425	524,906
Payroll taxes	436,709	50,275	39,332	2,915	92,522	529,231
Pension plan expenses	-	5,747	-	-	5,747	5,747
Total	5,009,301	860,042	554,603	28,335	1,442,980	6,452,281
Other expenses						
Fees for services	1,629,818	30,045	280,285	225,019	535,349	2,165,167
Production expenses	1,287,910	-	-	-	-	1,287,910
Lighting/sound	275,114	-	-	5,508	5,508	280,622
Office expenses	229,314	159,486	23,899	30,920	214,305	443,619
Advertising	247,302	-	-	648	648	247,950
Insurance	2,729	70,605	-	-	70,605	73,334
Royalties	448,612	-	-	-	-	448,612
Event expenses	94,366	7,476	12,879	51,269	71,624	165,990
Cost of goods sold	64,429	-	-	-	-	64,429
Miscellaneous	1,898	-	-	-	-	1,898
In-kind	499,688	-	-	-	-	499,688
Occupancy	69,206	-	-	-	-	69,206
Bank charges	181,400	30,861	18,301	5,410	54,572	235,972
Housing	193,011	-	-	-	-	193,011
Travel	291,435	9,798	43,415	-	53,213	344,648
Information technology	75,290	99,418	6,463	-	105,881	181,171
Maintenance	9,795	-	-	-	-	9,795
Marketing	493,082	-	48,735	-	48,735	541,817
Accounting	3,700	42,668	-	-	42,668	46,368
Legal	9,611	12,518	-	-	12,518	22,129
Bad debt	-	-	800,000	-	800,000	800,000
Conference	614	550	126	-	676	1,290
Total	6,108,324	463,425	1,234,103	318,774	2,016,302	8,124,626
Depreciation and amortization	769,644	-	-	-	-	769,644
Total	$ 11,887,269	$ 1,323,467	$ 1,788,706	$ 347,109	$ 3,459,282	$ 15,346,551

Note 14 – Expenses by Natural Classification (continued)

Expenses by function and nature consist of the following for the year ended August 31, 2019:

	Program Serevices	Management and General	Fundraising	Special Events	Supporting Services	Total
Salaries and related expenses						
Salaries and wages	$ 4,579,258	$ 730,495	$ 441,028	$ 39,850	$ 1,211,373	$ 5,790,631
Other employee benefit	571,124	49,439	39,376	1,245	90,060	661,184
Payroll taxes	369,910	48,706	34,982	3,004	86,692	456,602
Pension plan expenses	-	5,104	-	-	5,104	5,104
Total	5,520,292	833,744	515,386	44,099	1,393,229	6,913,521
Other expenses						
Fees for services	1,033,665	92,839	317,597	197,791	608,227	1,641,892
Production expenses	1,683,138	-	-	-	-	1,683,138
Lighting/sound	507,614	-	-	10,699	10,699	518,313
Office expenses	191,455	125,646	30,341	36,158	192,145	383,600
Advertising	512,539	-	-	730	730	513,269
Insurance	1,819	72,536	-	-	72,536	74,355
Royalties	398,915	-	-	-	-	398,915
Event expenses	-	-	212,401	213,392	425,793	425,793
Cost of goods sold	90,784	-	-	-	-	90,784
Miscellaneous	287,806	62,936	25,534	-	88,470	376,276
In-kind	321,576	-	63,309	93,403	156,712	478,288
Occupancy	63,199	-	-	-	-	63,199
Bank charges	220,412	3,873	-	11,053	14,926	235,338
Housing	204,292	-	-	5,396	5,396	209,688
Travel	96,559	618	1,280	6,878	8,776	105,335
Information technology	50,012	21,537	9,329	-	30,866	80,878
Maintenance	515,612	20,904	-	-	20,904	536,516
Marketing	530,525	-	-	-	-	530,525
Accounting	-	36,214	-	-	36,214	36,214
Legal	17,609	8,631	-	-	8,631	26,240
Conference	2,728	-	440	-	440	3,168
Total	6,730,259	445,734	660,231	575,500	1,681,465	8,411,724
Depreciation and amortization	727,319	-	-	-	-	727,319
Total	$ 12,977,870	$ 1,279,478	$ 1,175,617	$ 619,599	$ 3,074,694	$ 16,052,564

Note 15 – Liquidity and Availability

The Organization is supported primarily by ticket sales revenue and contributions. Because donor restrictions may require resources to be used in a particular manner or in a future period, financial assets may not be available for general expenditures within one year. The Organization structures its financial assets to be available as general expenditures, liabilities, and other obligations become due. In addition, the Organization invests cash in excess of immediate requirements in short-term investments.

Note 15 – Liquidity and Availability (continued)

The following table reflects the Organization's financial assets, excluding endowment assets, as of August 31, 2020 and 2019, reduced by amounts not available for general expenditures due to contractual or donor-imposed restrictions within one year. Amounts not available include pledges receivable due in more than one year, cash on hand restricted to support for future seasons, accumulated earnings on endowment funds included investments, cash and pledges receivable with purpose or time restrictions that could be drawn only upon the approval of the Board of Directors. However, amounts appropriated for expenditure from the donor-restricted accumulated earnings on the endowment within one year of August 31, 2020 and 2019, are considered available.

	2020	2019
Cash and cash equivalents	$ 1,329,848	$ 688,860
Investments	6,903,926	5,386,849
Other receivable	130,708	135,455
Pledges receivable	2,010,480	1,319,480
Total financial assets	10,374,962	7,530,644
Less: endowment assets held in perpetuity		
Investments	(1,500,000)	(1,500,000)
Pledges receivable	(600,000)	(300,000)
Total endowment assets held in perpetuity	(2,100,000)	(1,800,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 8,274,962	$ 5,730,644

Note 16 – Collective Bargaining Agreement

Substantially, all actors employed by the Organization are subject to a collective bargaining agreement with the International Alliance of Theatrical Stage Employees and Motion Picture Technicians, Artists and Allied Crafts of the United States and Canada Treasurers and Ticket Sellers Local 857, which expires September 1, 2021.

Note 17 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the 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 the consolidated financial statements are available to be issued. The Organization has evaluated subsequent events through December 7, 2020, which is the date the consolidated financial statements were available to be issued.

Note 18 – Risks and Uncertainties

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.

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The public health response to COVID-19 has adversely impacted the Organization's operations by requiring employees to work remotely, and by suspending or restricting theater productions and special events to an online format which are being offered through Geffen Stayhouse. The outbreak has substantially disrupted international and U.S. economies and markets, and beginning in March 2020, the Organization experienced declines in the fair values of some of its investments. The duration and severity of the pandemic is uncertain, the Organization's management cannot at this point estimate its ultimate loss to the Organization, and no provision for any estimated loss is reflected in the accompanying financial statements.