Chicago Theatre Group, Inc.

Financial Report

August 31, 2019

Contents

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Chicago Theatre Group, Inc.

We have audited the accompanying financial statements of Chicago Theatre Group, Inc. (the "Theatre"), which comprise the statements of financial position as of August 31, 2019 and 2018 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chicago Theatre Group, Inc. as of August 31, 2019 and 2018 and the results of its changes in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Chicago Theatre Group, Inc.'s 2018 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 7, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the Board of Trustees
Chicago Theatre Group, Inc.

Emphasis of Matter

As described in Note 1 to the financial statements, the Theatre adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

December 9, 2019

CHICAGO THEATRE GROUP, INC.

STATEMENTS OF FINANCIAL POSITION

August 31, 2019 and 2018

ASSETS

	2019	2018
Current Assets		
Cash and cash equivalents	$ 1,983,648	$ 1,757,622
Grants, pledges and other receivables (net of allowance for uncollectible pledges of $200,000 in 2019 and 2018)	2,734,136	4,210,718
Prepaid expenses	1,722,204	1,284,287
Total Current Assets	6,439,988	7,252,627
Noncurrent Investments	25,116,220	28,422,719
Property and Equipment		
Building	47,187,805	47,187,805
Equipment	11,743,725	11,087,234
Leasehold improvements	5,517,733	5,517,733
Total	64,449,263	63,792,772
Less accumulated depreciation and amortization	32,148,255	29,748,003
Net Property and Equipment	32,301,008	34,044,769
Other Assets		
Grants, pledges and other receivables (net of current portion and net of present value discount of $184,248 and $401,490 in 2019 and 2018, respectively)	3,188,572	5,622,181
Total Other Assets	3,188,572	5,622,181
TOTAL ASSETS	$ 67,045,788	$ 75,342,296

CHICAGO THEATRE GROUP, INC.

STATEMENTS OF FINANCIAL POSITION

August 31, 2019 and 2018

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable and accrued expenses	$ 927,611	$ 707,744
Deferred subscription and admission revenue	4,207,500	4,222,912
Bonds and promissary note payable- due within one year	573,391	26,691,042
Total current liabilities	5,708,502	31,621,698
Long-term liabilities		
Bonds and promissary note payable - long term, net of unamortized issuance cost	25,004,161	-
Accrued expenses - long term	527,035	589,393
Total liabilities	31,239,698	32,211,091
Net Assets		
Without Donor Restrictions		
Undesignated	(428,648)	939,458
Board Designated	25,022,838	27,075,953
Net assets without donor restrictions	24,594,190	28,015,411
With Donor Restrictions	11,211,900	15,115,794
Total net assets	35,806,090	43,131,205
TOTAL LIABILITIES AND NET ASSETS	$ 67,045,788	$ 75,342,296

See accompanying notes to financial statements

CHICAGO THEATRE GROUP, INC.

STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2019 (summarized information for the year ended August 31, 2018)

	Without Donor Restrictions					
	Annual Operations	Board Designated	Total	With Donor Restrictions	Total	**2018**
REVENUES						
Admissions						
Subscriptions	$ 3,664,011	$ -	$ 3,664,011	$ -	$ 3,664,011	3,803,140
Individual and group ticket sales	7,291,234	-	7,291,234	-	7,291,234	6,299,360
Total admissions	10,955,245	-	10,955,245	-	10,955,245	10,102,500
Public support	5,748,959	86,200	5,835,159	1,155,380	6,990,539	13,158,043
Net investment income (loss), net of manager fees of $55,581	75,947	179,615	255,562	59,456	315,018	2,139,371
Concessions income, net of expenses of $432,534	178,127	-	178,127	-	178,127	186,106
Royalty income	5,795	-	5,795	-	5,795	3,578
Facilities, costume and scenery rentals	72,490	-	72,490	-	72,490	238,057
Miscellaneous income	199,375	-	199,375	-	199,375	187,819
Total Revenues	17,235,938	265,815	17,501,753	1,214,836	18,716,589	26,015,474
Net Assets Released from Restrictions	2,970,382	2,148,348	5,118,730	(5,118,730)	-	-
Investment Designated for Operations	1,118,000	(1,118,000)	-	-	-	-
Total Revenues and Net Assets Released from Restrictions	21,324,320	1,296,163	22,620,483	(3,903,894)	18,716,589	26,015,474
EXPENSES						
Program Services						
Direct Expenses						
Artistic	5,028,476	1,473,416	6,501,892	-	6,501,892	5,563,011
Production	5,071,066	1,043,669	6,114,735	-	6,114,735	5,582,324
General artistic	2,232,472	-	2,232,472	-	2,232,472	2,398,453
General production	1,286,189	-	1,286,189	-	1,286,189	1,267,624
Total Program Services	13,618,203	2,517,085	16,135,288	-	16,135,288	14,811,412
Supporting Services						
General and administrative	3,224,950	731,344	3,956,294	-	3,956,294	4,208,972
Fundraising	2,079,357	100,849	2,180,206	-	2,180,206	2,462,531
Advertising and subscription	3,769,916	-	3,769,916	-	3,769,916	3,769,853
Total Supporting Services	9,074,223	832,193	9,906,416	-	9,906,416	10,441,356
Total Expenses	22,692,426	3,349,278	26,041,704	-	26,041,704	25,252,768
CHANGE IN NET ASSETS	(1,368,106)	(2,053,115)	(3,421,221)	(3,903,894)	(7,325,115)	762,706
NET ASSETS - Beginning of Year	939,458	27,075,953	28,015,411	15,115,794	43,131,205	42,368,499
NET ASSETS - END OF YEAR	$ (428,648)	$ 25,022,838	$ 24,594,190	$ 11,211,900	$ 35,806,090	$ 43,131,205

See accompanying notes to financial statements.

CHICAGO THEATRE GROUP, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2019 with Summarized Comparative Totals for the year ending August 31, 2018

	Program Services					Supporting Services							
	Artistic	Production	General Artistic	General Production	Total Program Services	General and Administration	Fundraising	Advertising and Subscription	Total Supporting Expenses	Total 2019 Expenses		Total 2018 Expenses	
Salaries, payroll taxes employee benefits	$ 2,806,576	$ 3,416,213	$ 1,579,407	$ 1,097,388	$ 8,899,584	$ 2,501,774	$ 1,065,585	$ 1,521,137	$ 5,088,496	$ 13,988,080	53.7 %	$ 13,136,615	61.4
Advertising	-	-	-	-	-	-	-	1,766,255	1,766,255	1,766,255	6.8	1,831,647	7.7
Royalties	535,546	-	-	-	535,546	-	-	-	-	535,546	2.1	373,421	1.7
Contract fees and expenses	968,998	3,032	525,975	-	1,498,005	184,947	8,645	-	193,592	1,691,597	6.5	1,805,603	6.5
Costumes	-	277,915	-	-	277,915	-	-	-	-	277,915	1.1	162,696	1.2
Electrical equipment	-	67,551	-	-	67,551	-	-	-	-	67,551	0.3	80,822	0.7
Props and scenery	-	696,530	-	-	696,530	-	-	-	-	696,530	2.7	713,820	4.5
Travel, housing and entertainment	225,807	36,035	51,758	13,833	327,433	69,958	5,408	11,067	86,433	413,866	1.6	527,059	2.3
Insurance	34,552	48,468	-	-	83,020	78,397	2,159	-	80,556	163,576	0.6	153,278	0.7
Repairs and maintenance	9,685	54,206	-	4,291	68,182	217,410	605	-	218,015	286,197	1.1	420,667	0.5
Supplies and non-depreciable equipment	85,401	51,322	44,734	83,743	265,200	184,435	100,725	327,915	613,075	878,275	3.4	805,801	4.3
Postage	-	-	482	129	611	7,794	37,929	119,842	165,565	166,176	0.6	147,981	0.7
Rental	108,474	76,835	-	17,150	202,459	33,898	6,780	-	40,678	243,137	0.9	254,933	1.0
Depreciation and amortization	1,061,748	841,571	-	69,655	1,972,974	330,056	74,058	7,699	411,813	2,384,787	9.2	2,250,794	1.1
Phone campaign	-	-	-	-	-	-	143,402	-	143,402	143,402	0.6	155,546	0.2
Benefit and other event expense	-	-	-	-	-	-	465,634	-	465,634	465,634	1.8	597,714	1.6
Utilities	145,356	176,036	-	-	321,392	45,424	9,085	-	54,509	375,901	1.4	334,658	1.6
Security	104,400	73,950	-	-	178,350	32,625	6,525	-	39,150	217,500	0.8	232,184	0.6
Interest	407,497	288,644			696,141	151,937	25,469		177,406	873,547	3.4	827,695	
Miscellaneous	7,852	6,427	30,116	-	44,395	117,639	228,197	16,001	361,837	406,232	1.6	439,834	1.8
Total	$ 6,501,892	$ 6,114,735	$ 2,232,472	$ 1,286,189	$ 16,135,288	$ 3,956,294	$ 2,180,206	$ 3,769,916	$ 9,906,416	$ 26,041,704	100.0 %	$ 25,252,768	100.0

See accompanying notes to the financial statements

CHICAGO THEATRE GROUP, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ (7,325,115)	$ 762,706
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	2,400,252	2,258,411
Amortization of bond issuance cost	24,594	-
Unrealized loss (gain) on investments	1,033,319	(66,945)
Realized gain on investments	(569,594)	(1,465,640)
Contributions restricted for endowment	-	(5,000,000)
Change in noncash assets and liabilities		
Grants, pledges and other receivables	3,910,191	660,341
Prepaid expenses and deposits	(437,917)	666,306
Accounts payable and accrued expenses	157,509	(99,215)
Deferred subscription, admission revenue and rent	(15,412)	(310,587)
Net Cash Flows from Operating Activities	(822,173)	(2,594,623)
Cash Flows From Investing Activities		
Sales of investments	7,795,390	13,762,967
Purchases of investments	(4,952,619)	(13,288,737)
Purchases of equipment and leasehold improvements	(656,490)	(1,587,866)
Net Cash Flows from Investing Activities	2,186,281	(1,113,636)
Cash Flows From Financing Activities		
Collections of contributions restriced for endowment	-	5,000,000
Issuance of bonds cost	(368,916)	-
Principal payments on bonds payable	(769,166)	(2,162,713)
Net Cash Flows from Financing activities	(1,138,082)	2,837,287
Net Increase (Decrease) in Cash and Cash Equivalents	226,026	(870,972)
Cash and Cash Equivalents - Beginning of Year	1,757,622	2,628,594
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,983,648	$ 1,757,622
Supplemental Disclosure		
Cash paid for interest	$ 848,952	$ 827,695

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chicago Theatre Group, Inc. (the "Theatre"), operating as the Goodman Theatre, is an Illinois not-for-profit corporation established for the purpose of promoting interest in the theatre arts in Chicago. The Theatre's annual activities include the production of five main-stage series plays, a special holiday production, three second-stage series plays and other second-stage presentations, and educational and community engagement programs. The Theatre is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Basis of presentation: The Theatre follows current authoritative accounting guidance relating to financial statements of not-for-profit organizations. Under this guidance, the Theatre is required to report information regarding its financial position and activities applicable to nonprofit organizations in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Revenue and expenses are reported on the accrual basis. The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Theatre's financial statement for the year ended August, 31, 2018, from which the summarized information was derived.

Classification of net assets:
The Theatre classifies resources for reporting purposes in the following net asset categories according to the existence or absence of donor-imposed restrictions:

- *Net Assets without donor restrictions*: are available for support of the Theatre's operations and are not subject to donor-imposed restrictions or restricted gifts whose restrictions were met during the year. Net assets without donor restriction are further segregated into annual operations and board designated. Annual Operations represents the undesignated operating activity of the Theatre.

- *Net Assets with donor restrictions* – are subject to donor-imposed restrictions expected to be met either by actions of the Theatre or passage of time. This includes amounts subject to donor-imposed restrictions stipulating that the corpus be held in perpetuity with the investment income on the principal used for the specified purpose outlined by the donor.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash and highly liquid short-term investments with maturities of three months or less at the date of acquisition. The Theatre maintains deposits with financial institutions that exceed the federally insured limit of $250,000. The Theatre believes it is not exposed to any significant credit risk on its uninsured deposits.

Grants and Pledges Receivable: Contributions, including cash and noncash assets, as well as reasonably collectible unconditional promises to give, are recognized in the year received.

Conditional promises to give, which depend on the occurrence of specified future and uncertain events to bind the promise, are recognized when the conditions on which they depend are substantially met.

When donor restrictions expire (i.e., when a stipulated time restriction ends or other restriction is met), the Theatre reports the change from net assets with donor restriction to net assets without donor restriction as net assets released from restrictions in the statements of activities.

The Theatre analyzes all uncollected amounts as of year-end and determines allowances as appropriate. As of August 31, 2019 and 2018, the Theatre has allowances totaling $200,000.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: Investments are reported at fair value. Changes in fair value during the year are recorded as realized and unrealized gains or losses in the statement of activities. Investments are exposed to various risks, such as interest rate, market, and credit risks. It is at least reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect amounts reported.

Property and Equipment: Equipment with a cost in excess of $600 is capitalized at cost and depreciated using the straight-line method over estimated useful lives ranging from three to five years. The building is being depreciated using the straight-line method over an estimated useful life of 40 years. Capitalized interest costs associated with the New Goodman Theatre Project are included in the cost of the building and are being depreciated over the estimated useful life of the building. Leasehold improvements are amortized over the shorter of the remaining lease term or ten years, using the straight-line method. Depreciation expense for the years ended August 31, 2019 and 2018, was $2,400,252 and $2,258,411, respectively.

Debt Issuance Costs: Bond issuance costs were incurred by the Theatre in connection with refinancing debt. These costs are recorded as a reduction in the recorded balance of the outstanding debt. The costs are amortized over the term of the related debt and reported as a component of interest expense.

Admission Revenue: Ticket sales and subscription revenue are recorded as admission revenue on a specific-performance basis. Subscriptions for the coming play season are shown as deferred subscription and admission revenue in the statements of financial position.

Advertising costs: The Theatre follows the policy of expensing advertising and marketing costs when incurred. For the years ended August 31, 2019 and 2018, advertising related costs amount to $3,769,916 and $3,769,853, respectively.

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

Functional allocation of expenses: The cost of providing the program and other activities have been presented on a functional basis in the statement of functional expenses. Cost are charged to program services and supporting services on an actual basis when available. Accordingly, certain costs have been allocated among the programs and supporting services on bases and estimates determined by management.

Facility expenses (including salaries, occupancy, supplies and utilities), building depreciation, and debt service expenses of $4,628,333 are allocated based on square footage as follows:

Artistic	48%
Production	34%
Development	3%
General and Administrative	15%
Total	100%

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard: For the year ended August 31, 2019, applied retrospectively to all years presented, the Theatre adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. Temporarily and permanently restricted net assets of $11,211,900 are now classified as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Theatre, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also requires investment expenses to be reported on the statement of activities netted against investment return and reported in the net asset category in which the net investment return is reported. The standard also clarifies the definition of management and general (support services) and prohibits certain expenses from being allocated out of management and general (support services).

Upcoming Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB)issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Theatre’s year ending August 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Theatre plans to apply the standard using the cumulative effect method and expects to have expanded disclosures as a result of the new standard.

The Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Theatre’s year ending August 31, 2022 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Theatre’s financial statements as a result of the Theatre's leases for building space classified as operating leases. Upon adoption, the Theatre will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the changes in net assets are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Theatre's year ending August 31, 2020 and will be applied on a modified prospective basis. The Theatre does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Income Tax Status: The Internal Revenue Service has determined that the Theatre is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax; however, any unrelated business income may be subject to taxation.

The Theatre follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Theatre for uncertain tax positions as of August 31, 2019 and 2018.

Subsequent Events: The financial statements and related disclosures include evaluation of events up through and including December 9, 2019, which is the date the financial statements were available to be issued.

NOTE 2 – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy: Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In many cases, a valuation technique used to measure fair value included inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. Investments using Net Asset Value (NAV) per share (or its equivalent) as a

(Continued)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

fair value expedient have not been classified in the fair value hierarchy. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

<u>*Valuation Techniques and Inputs:*</u> Level 1 assets include investments in fixed income and equity funds that are based on quoted market prices. There have been no changes in the techniques and inputs used as of August 31, 2019 and 2018.

While the Theatre believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following are descriptions of the valuation methods and assumptions used by the Theatre to estimate the fair values of investments:

Fixed income funds: The fair value of fixed income funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges.

Equity Funds: The fair value of equities, including domestic stocks, international stocks and equity funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges.

Alternative investments: The Theatre's investment in alternative investments consists of three hedge fund portfolios. One fund with an approximate fair value of $1,216,000 and $1,195,000 as of August 31, 2019 and 2018, respectively, is an umbrella type investment company that is structured as an umbrella fund with segregated liability between "sub-funds", which engage in a variety of investment strategies. The Theatre may redeem all or a part of its participating shares from the fund quarterly, upon 30 days advance written notice. The second fund, with an approximate fair value of $1,304,000 and $1,197,000 as of August 31, 2019 and 2018, respectively, is a limited partnership fund, which invests in and sells short securities and instruments. The Theatre may redeem all or a part of its participating shares from the partnership quarterly, upon 90 days advance written notice. The third fund, with an approximate value of $48,000 and $1,055,000 as of August 31, 2019 and 2018, respectively, is an exempted investment company organized for the purpose of trading and investing securities. This fund invests substantially all of its assets through a master-feeder structure that has the same investment objectives. The Theatre may redeem all or part of its participating shares from the partnership quarterly, upon 30 days advance written notice. There are no unfunded commitments at August 31, 2019.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Investments using Net Asset Value (NAV) per share (or its equivalent) as fair value expedient have not been classified in the fair value hierarchy. These investments are presented as "NAV" in the following tables to permit reconciliation of the fair value hierarchy table to the total investments at fair value presented in the Statement of Financial Position. The Theatre's assessment of significance of a particular input to the fair value measurement in its entirety requires judgement and considers factors specific to the investment.

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NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Cash and cash equivalents: Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.

The following table presents information about the Theatre's assets measured at fair value on a recurring basis as of August 31, 2019:

	Level 1	Level 2	Level 3	NAV	Total
Investments					
Fixed income funds					
U.S. fixed income	$ 7,242,143	$ -	$ -	$ -	$ 7,242,143
Non U.S. fixed income	1,827,665	-	-	-	$ 1,827,665
Equity funds					
U.S. equity	7,991,114	-	-	-	$ 7,991,114
Non U.S. equity	5,452,714	-	-	-	$ 5,452,714
Alternative Investments		-	-	2,568,108	$ 2,568,108
Cash and cash equivalents	34,476	-	-	-	$ 34,476
Total	$ 22,548,112	$ -	$ -	$ 2,568,108	$ 25,116,220

The following table presents information about the Theatre's assets measured at fair value on a recurring basis as of August 31, 2018:

	Level 1	Level 2	Level 3	NAV	Total
Investments					
Fixed income funds					
U.S. fixed income	$ 7,672,664	$ -	$ -	$ -	$ 7,672,664
Non U.S. fixed income	2,097,505	-	-	-	2,097,505
Equity funds					
U.S. equity	8,938,334	-	-	-	8,938,334
Non U.S. equity	6,244,377	-	-	-	6,244,377
Alternative Investments	-	-	-	3,446,980	3,446,980
Cash and cash equivalents	22,859	-	-	-	22,859
Total	$ 24,975,739	$ -	$ -	$ 3,446,980	$ 28,422,719

The Theatre's policy is to recognize transfers in and transfers out of Level 1, 2 and 3 fair value classifications as of the end of the reporting period. As of August 31, 2019 and 2018, there were no such transfers.

(Continued)

NOTE 3 – GRANTS, PLEDGES, AND OTHER RECEIVABLES

Grants, pledges and other receivables, net of allowance for uncollectible, at August 31 consist of the following:

	2019	2018
Grants and pledges:		
Goodman Excellence Campaign	$ 3,759,646	$ 6,157,993
Individuals	1,174,731	1,642,163
Government	50,000	102,800
Foundations	715,000	1,377,000
Corporations	478,032	912,000
Gross grants and pledges	6,177,409	10,191,956
Less: Unamortized discount	(184,248)	(401,490)
Allowance for uncollectible pledges	(200,000)	(200,000)
Other receivables	129,547	242,433
Total Receivables	5,922,708	9,832,899
Less current portion	2,734,136	4,210,718
Non-current portion	$ 3,188,572	$ 5,622,181

The current portion of the above is due in less than one year. The noncurrent portion is all due within one to five years with the exception of $1,200,000, which is due beyond five years.

The Goodman Excellence Campaign was established as a fund-raising effort to create an operating reserve. These amounts are not restricted and can be designated for use by the board as appropriate.

Pledges receivables have been discounted using rates ranging from 1.66% to 1.50%. Amortization of the discount is reported as public support in the statement of activities. Contributions receivable at August 31, 2019 and 2018, from related parties, which represents donations made by board members, were $3,190,646 and $4,094,206, respectively.

(Continued)

NOTE 4 – NONCURRENT INVESTMENTS

The components of investment income and gains/losses on investments for the years ended August 31 are as follows:

	2019	2018
Interest and dividends	$ 778,753	$ 606,786
Realized gains	569,594	1,465,640
Unrealized (losses) gains	(1,033,319)	66,945
Total	$ 315,028	$ 2,139,371

The statement of activities reflects a distribution of investment earnings from designated investments to annual operations of $1,118,000 and $1,561,300 for 2019 and 2018, respectively. For fiscal year 2019 and 2018, the distribution represents 4.70% and 5.50% of a three year rolling average of the investment market value.

Additionally, the statement of activities reflects a distribution from donor imposed restricted investment for the purpose of specific program activities. The distribution is approved at 4% of a three year rolling average of the investment market value. For the fiscal year ending 2019 and 2018, the distribution is $142,000 and $69,050, respectively.

NOTE 5 – BOND/MORTGAGE PAYABLE

The Theatre had a term loan agreement and bond agreement with Fifth Third Bank. The bonds held were Series 2015A, Series 2015B-1 and Series 2015B-2. The Series 2015A carried a 7 year term, amortized over 30 years at a fixed interest rate of 2.86%. The Theatre retired $742,145 of these bonds in 2018. The balance outstanding of this bond as of August 31, 2018 was $16,530,271. The Series 2015B-1 carried a 5 year term, amortized over 15 years at a variable rate of (Libor plus 342 bps) x 65%, or 3.58% for 2018. The Theatre retired $145,568 of this debt in 2018. The balance outstanding of this bond as of August 31, 2018 was $1,885,771. The Series 2015B-2 carried a 7 year term, amortized over 4 years beginning on September 1, 2019 at a variable rate of (Libor plus 260 bps) x 65%, or 3.04% for 2018. The balance outstanding of this bond as of August 31, 2018 was $4,400,000. The term loan carried a 7 year term, amortization to begin in year 3 at a variable rate of (Libor plus 169 bps), or 3.82% for 2018. The Theatre retired $1,275,000 of this debt in 2018. The balance outstanding on this term loan as of August 31, 2018 was $3,875,000. The term loan was collateralized by the Goodman Center for Education and Engagement.

(Continued)

NOTE 5 – BOND/MORTGAGE PAYABLE (Continued)

On May 8, 2019, the Theatre refinanced its debt previously held with Fifth Third Bank. The new debt agreement was signed by PNC Bank.

	2019
Series 2015, payable in 2043	$ 22,471,874
Promissory Note	3,450,000
Less: issuance cost, less amortization	(344,322)
	$25,577,552

The following outlines the debt structure:

Series 2015: $22,471,874 direct bond purchase agreement. The variable rate revenue bonds held by Illinois Finance Authority were issued to refund and retire existing bonds originally issued in 1999 to build the new theatre facility. The new bonds carry a 24-year term with escalating principal payments due October 1 of each year plus interest. The interest rate is variable equal to the sum of 79% of the One Month LIBOR, plus the initial applicable spread. The interest rate at the end of August, 31, 2019 was 2.96%. The balance outstanding balance at August 31, 2019 is $22,471,875.

Promissory Note: The note in the amount of $3,450,000 retires the original line of credit used to build out the new Goodman Center for Education and Engagement. The facility carries a 5-year term with escalating payments due on October 1 of each year plus interest stated at Libor plus 1.60% or 3.82% for the year ending August 31, 2019. The term loan is collateralized by the Goodman Center for Education and Engagement.

Debt issuance cost of $368,916, less $24,594 of amortization in 2019, is shown net of outstanding issued debt. Management is amortizing cost over the five year term of the promissory note.

The agreements contain four financial covenants. The Unrestricted Liquid Assets to Debt Ratio will be not less than 0.75:1.0 for the period ending August 31, 2019 and the ratio increases to 0.80:1.0 for subsequent reporting periods; a maximum annual operation deficit not to exceed ($675,000) for the period ending August 31, 2019 and decreases to ($625,000) for subsequent reporting periods; annual unfunded capital expenditures less than or equal to $500,000; and no additional debt less than or equal to $250,000 without prior consent. For the year ended August 31, 2019, all covenants were met, except for unfunded capital expenditures, which exceed by $50,171 due to an unplanned expenditure. The bank issued a waiver for unfunded capital expenditures at August 31, 2019.

(Continued)

NOTE 5 – BOND/MORTGAGE PAYABLE (Continued)

Future maturities of the bond and promissory note payable under the current payment schedules are as follows:

2020	573,391
2021	599,659
2022	632,866
2023	661,567
2024	691,569
Thereafter	22,762,822
	$ 25,921,874

NOTE 6 – LEASES

On September 1, 2015, the Theatre entered into a 10-year lease (with multiple 5 year options) with Friedman Properties for 7,800 sq. ft. on the second floor of the building located at 60 W. Randolph Street, Chicago, Illinois. This space houses the Goodman Center for Education and Engagement. On April 13, 2017, the Theatre signed an amendment to the office lease to include an additional 2,422 sq. ft. on the second floor of the building located at 60 W. Randolph Street Chicago Illinois. Lease term is the same as the original lease agreement signed on September 1, 2015. Future minimum lease payments for this lease are as follows:

2020	293,457
2021	298,568
2022	303,679
2023	308,790
2024	313,901
Thereafter	779,428
	$2,297,823

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the year ended August 31, 2019 are as follows:

	2019	2018
Specific Purpose:		
New Works	5,000,000	5,000,000
Subject to expenditures for a specified purpose or passage of time	6,211,900	5,115,794
	$ 11,211,900	$ 10,115,794

(Continued)

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The $5.0 million Davee Foundation fund is restricted in perpetuity by the donor. The purpose of the grant is to provide support for and endow a fund for new works. Based on the agreement, income from the fund no more than 4% is to be used to support the development and production of new works. During the fiscal year, the Theatre used $142,000 of the endowment earnings based on the grant outline.

Net assets released from net assets with donor restrictions are as follows:

	2019	2018
Pledges Receivable	4,976,730	4,135,909
Davee Foundation	142,000	69,050
	$ 5,118,730	$ 4,204,959

NOTE 8 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects Chicago Theatre Group's financial assets as of August 31, 2019, reduced by amounts not available for general use within one year of the statement of the financial position date because of contractual or donor-imposed restrictions. Amounts not available include amounts set aside by donor restriction.

		2019
Financial Assets at year end:		
Cash and cash equivalents	$	1,983,648
Grants, pledges and other receivables	$	5,922,708
Investments	$	25,116,219
Total Financial Assets	**$**	**33,022,575**
Less: amounts not available to be used within one year:		
Donor Time Restricted - Grants, pledges and other	$	(3,188,572)
Donor Restricted	$	(5,000,000)
Board Designated net of approximate spending policy withdrawal	$	(23,521,468)
Financial assets available to meet general expenditures over the next twelve months	**$**	**1,312,535**

Chicago Theatre Group's goal is to maintain financial assets to meet annual general operating expenses. General expenses average $2.0 million monthly depending on nature of programming activity which varies each year.

The Theatre's board of directors have identified the investment account to be utilized to cover short term and capital expenditures in negative cash flow periods. The funds are invested for long-term appreciation. This investment account is utilized to meet working capital needs, while continuing to outreach to donors, foundations, corporations and board of directors to meet needs. $23.5 million reduced as "board designated" is available for use at the discretion of the board.

(Continued)

NOTE 9 – DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS

The Theatre's endowment includes one donor-restricted endowment fund and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Theatre is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditures.

Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees of the Theatre had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Theatre considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Theatre has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Theatre considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Theatre 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 Theatre
- The investment policies of the Theatre

The Investment Committee of the Board of Trustees establishes policies and procedures concerning the management of the endowment funds that are approved by the Board of Trustees. These policies establish asset classes that are deemed suitable for investment of endowment funds, which currently include investment in domestic and international equities, fixed income, and alternative strategies. Endowment funds are managed on a total return basis taking into consideration the need to maintain the purchasing power of the funds as well as the need to support the Theatre's mission. Risk and return expectations for the endowment funds are modeled using historical rates of return and volatility measures for various asset allocation scenarios. Investments are made in various asset classes based on policy requirements for a highly diversified portfolio in accordance with asset allocation guidelines.

Actual allocations to an asset's class are compared to target allocations and rebalanced as appropriate. The performance of endowment funds' investments is reported on a monthly basis and the annual real

(Continued)

NOTE 9 – DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS (Continued)

return objective is to earn, over time, a real, inflation-adjusted, annual rate of return that exceeds the Theatre's spending rate. The earnings or losses from the board-designated endowment assets are based on the Board's designation. For the years ended August 31, 2019 and 2018, unrealized gains and losses from the board-designated funds are classified as net assets without donor restrictions. For the year ended August 31, 2019, the unappropriated unrealized gains and losses from the donor-restricted endowment funds are classified as net assets with donor restrictions.

The Theatre's Board has approved a spending policy which allows for the spending of interest, dividends and accumulated gains earned on the invested assets to support operations for both 2019 and 2018. The target spending for qualified distributions from the endowment in any calendar year should be up to 6% of the assets annually based on a rolling twelve-quarter (three year) average market value upon Board approval. Actual spending rates were 4.75% and 5.60% for 2019 and 2018, respectively. Consistent with the donor-restricted endowment agreement, the Theatre has a policy of appropriating for distribution each year up to 4% of the assets annually based on a rolling twelve-quarter (three year) average market value upon Board approval. These policies allow for the preservation of principal, competitive investment returns, and moderate investment risk.

(Continued)

NOTE 9 – DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS (Continued)

Changes in endowment net assets for the years ended August 31, 2019 and 2018 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets at August 31, 2017	$ 29,399,119	$ -	$ 29,399,119
Investment return			
Investment income, net	495,967	40,636	536,603
Net appreciation (realized and unrealized)	1,414,037	118,549	1,532,586
Total investment return	1,910,004	159,185	2,069,189
Contributions received	1,347,592	5,000,000	6,347,592
Appropriations of endowment assets for expenditure			
Allocation to annual fund	(1,492,250)	(69,050)	(1,561,300)
Spending on endowments	(4,088,512)	-	(4,088,512)
Total appropriations	(5,580,762)	(69,050)	(5,649,812)
Endowment net assets at August 31, 2018	27,075,953	5,090,135	32,166,089
Investment return			
Investment income, net	555,224	151,736	706,960
Net appreciation (realized and unrealized)	(375,609)	(92,270)	(467,879)
Total investment return	179,615	59,466	239,081
Contributions received	-	-	-
Appropriations of endowment assets for expenditure			
Allocation to annual fund	(1,118,000)	(142,000)	(1,260,000)
Spending on endowments	(1,114,730)	-	(1,114,730)
Total appropriations	(2,232,730)	(142,000)	(2,374,730)
Endowment net assets at August 31, 2019	$ 25,022,838	$ 5,007,601	$ 30,030,440

(Continued)

NOTE 10 – RETIREMENT PLANS

Multi-employer Pension Plans

The Theater participates in union-sponsored multi-employer pension plans covering certain actors and stage managers, designers, musicians and directors. Contributions to these plans totaled $213,964 and $153,632, for the years ended August 31, 2019 and 2018, respectively. Each of these plans requires contributions calculated as a percentage of gross wages of covered employees, at a weighted average of 10.54% of payroll for each year. The Theater's contributions and pension benefits payable under the plans and the administration of the plans are determined by the terms of the related collective-bargaining agreements. The multi-employer plans pose different risks to the Theater than single-employer plans in the following respects:

1. The Theater's contributions to the multi-employer plan may be used to provide benefits to all participating employees of the program, including those employed by other employers.

2. If a participating employer fails to make its required contributions, the unfunded obligations of the plan may be borne by the remaining participating employers.

3. If an employer chooses to stop participating in a multiemployer plan, the withdrawing company may be required to pay to the plan a final payment (the withdrawal liability).

As illustrated in the table below, the Theater participated in the following multi-employer plans for the year ended August 30, 2019. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act (PPA) zone status available in 2019 and 2018 is for the plan's year-end. Based on an actuary's certified information, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement.

(Continued)

NOTE 10 – RETIREMENT PLANS (Continued)

Pension Fund	EIN/Pension Plan Number	Protection Act 2019	Protection Act 2018	FIP/RP Status Pending/ Implemented	Contributions 2019	Contributions 2018	Expiration Date of Collective Bargaining Agreement
Equity League	13-6696817/001	Green	Green	No	$ 121,419	$ 101,878	2/13/2022
American Federation of Musicians	51-6120204/001	Red	Red	Yes	27,412	303	8/31/2020
United Scenic Artists	13-7982707/001	Green	Green	No	52,659	43,254	6/30/2021
SDC-League	13-6634482/001	Red	Yellow	Yes	12,474	8,197	4/14/2022
				Total Contributions	$ 213,964	$ 153,632	

Defined Contribution 401(k) Plan

During 1998, the Board of Trustees approved the creation of the Theatre's 401(k) Plan (the "Plan"), a defined contribution plan. Employees voluntarily make contributions to the Plan in amounts based upon limits established by Sections 402(g) and 414(v) of the Internal Revenue Code. The Plan's assets are invested in certain self-directed income, money market and equity funds.

The Board of Trustees approved a 1% employer contribution of $72,828 for the year ended August 31, 2018. The Board of Trustees did not approve a contribution for the year ended August 31, 2019