

VILLAGE THEATRE

Financial Statements

For the Year Ended August 31, 2017

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Independent Auditor's Report

**To the Board of Directors
Village Theatre
Issaquah, Washington**

We have audited the accompanying financial statements of Village Theatre (the Theatre) which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Theatre'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 Theatre'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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Theatre as of August 31, 2017, and its activities and changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on page 16, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Theatre's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clark Nuber PS

Certified Public Accountants
November 14, 2017

VILLAGE THEATRE

Statement of Financial Position
 August 31, 2017
 (With Comparative Totals for 2016)

	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,187,150	\$ 2,192,664
Reserved cash (Note 8)	151,196	144,035
Cash held for others	580	6,347
Accounts receivable	42,837	38,050
Pledges receivable, net (Note 3)	145,140	156,921
Grants receivable	395,795	267,640
Deferred production costs	1,060,481	934,962
Other current assets	137,253	80,212
Total Current Assets	4,120,432	3,820,831
Endowment investments	93,755	31,511
Long-term pledges and grants receivable (Note 3)	83,499	48,962
Pledges and grants restricted for long-term purposes (Note 3)	263,735	557,014
Property and equipment, net of accumulated depreciation (Note 4)	10,412,159	10,694,493
Other long-term assets	15,000	15,000
Total Assets	\$ 14,988,580	\$ 15,167,811
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 184,101	\$ 176,110
Accrued wages and taxes	316,390	252,180
Deposits held in custody for others	580	6,347
Deferred revenue	4,329,970	4,299,403
Current portion of long-term debt (Note 5)	88,197	127,960
Total Current Liabilities	4,919,238	4,862,000
Long-term debt, less current portion (Note 5)	1,822,417	1,912,514
Total Liabilities	6,741,655	6,774,514
Net Assets:		
Unrestricted	7,783,363	8,088,783
Unrestricted - Board Designated Endowment	10,470	
Temporarily restricted (Note 11)	400,661	288,083
Permanently restricted (Note 12)	52,431	16,431
Total Net Assets	8,246,925	8,393,297
Total Liabilities and Net Assets	\$ 14,988,580	\$ 15,167,811

See accompanying notes.

VILLAGE THEATRE

**Statement of Activities and Changes in Net Assets
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)**

	2017				2016 Total	
	Unrestricted	Temporarily Restricted Additions	Releases	Permanently Restricted		Total
Revenue and Support:						
Revenue-						
Ticket sales	\$ 7,848,740	\$ -	\$ -	\$ -	\$ 7,848,740	\$ 7,330,056
Tuition	921,205				921,205	866,410
Leases and other income	770,399				770,399	707,655
Management fees (Note 7)	297,393				297,393	292,135
Interest income	3,641				3,641	2,514
Total revenue	9,841,378				9,841,378	9,198,770
Support-						
Corporate sponsorships and contributions	291,455	91,000	(110,000)		272,455	281,773
Patron contributions	1,102,152	30,091	(67,525)		1,064,718	1,017,807
Foundation support	119,182	127,500	(7,500)		239,182	67,451
Government grants	211,177	49,334	(20,516)		239,995	220,191
Fundraising events, gross (Note 6)	708,367	5,000	(2,500)		710,867	591,671
ArtsFund	93,800				93,800	93,580
In-kind (Note 1)	208,252	17,920	(16,000)		210,172	156,578
Total support	2,734,385	320,845	(224,041)		2,831,189	2,429,051
Total Revenue and Support	12,575,763	320,845	(224,041)		12,672,567	11,627,821
Expenses:						
Production and program	10,717,465				10,717,465	9,758,942
General and administrative	871,165				871,165	843,310
Fundraising	898,397				898,397	798,333
Total Expenses	12,487,027				12,487,027	11,400,585
Change in Net Assets Before						
Depreciation and Capital Campaign	88,736	320,845	(224,041)		185,540	227,236
Depreciation	(440,386)				(440,386)	(448,159)
Capital Campaign and Endowment:						
Corporate contributions	11,100			10,000	21,100	4,425
Patron contributions	20,565			26,000	46,565	61,728
Foundation support						25,000
Government grants	25,000				25,000	175,000
Interest income	988	805			1,793	1,761
Gains on investments		14,969			14,969	
Capital campaign expense	(953)				(953)	(1,965)
Total Capital Campaign	56,700	15,774		36,000	108,474	265,949
Total Change in Net Assets	(294,950)	336,619	(224,041)	36,000	(146,372)	45,026
Combining of temporarily restricted columns		(224,041)	224,041			
Total Change in Net Assets	(294,950)	112,578		36,000	(146,372)	45,026
Net assets, beginning of year	8,088,783	288,083		16,431	8,393,297	8,348,271
Net Assets, End of Year	\$ 7,793,833	\$ 400,661	\$ -	\$ 52,431	\$ 8,246,925	\$ 8,393,297

See accompanying notes.

VILLAGE THEATRE

**Statement of Cash Flows
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)**

	<u>2017</u>	<u>2016</u>
Operating Activities:		
Change in net assets	\$ (146,372)	\$ 45,026
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	440,386	448,159
Amortization of loan fees	2,443	2,255
Contributions classified as financing activities	(92,665)	(266,153)
Gain on investments	(15,439)	(463)
Loss on sale of equipment	705	
Cash provided (used) by changes in operating assets and liabilities:		
Reserved cash	(7,161)	(12,455)
Cash held for others	5,767	(3,195)
Accounts receivable	(4,787)	27,611
Pledges receivable	60,743	(75,168)
Grants receivable	(128,155)	32,040
Deferred production costs	(125,519)	(127,812)
Other assets	(57,041)	26,647
Accounts payable	7,991	38,503
Accrued wages and taxes	64,210	20,639
Deposits held in custody for others	(5,767)	3,195
Deferred revenue	30,567	340,071
Net Cash Provided by Operating Activities	29,906	498,900
Cash Flows From Investing Activities:		
Purchase of investments	(46,805)	
Purchase of property and equipment and other long-term assets	(161,257)	(606,864)
Proceeds from sales of property and equipment	2,500	
Net Cash Used in Investing Activities	(205,562)	(606,864)
Cash Flows From Financing Activities:		
Principal payments on long-term debt	(125,709)	(120,381)
Capitalized loan fees	(6,594)	
Proceeds from contributions restricted for long-term purposes	302,445	214,567
Net Cash Provided by Financing Activities	170,142	94,186
Net Change in Cash and Cash Equivalents	(5,514)	(13,778)
Cash and cash equivalents, beginning of year	2,192,664	2,206,442
Cash and Cash Equivalents, End of Year	\$ 2,187,150	\$ 2,192,664
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 98,009	\$ 104,009

See accompanying notes.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2017 (With Comparative Totals for 2016)

Note 1 - Organization and Significant Accounting Policies

Organization - Village Theatre (the Theatre) is a Washington nonprofit corporation that produces live dramatic performances in Issaquah and Everett, Washington. It is the Theatre's mission to be a regionally recognized and nationally influential center of excellence in family theatre by promoting a season of top quality productions, commissioning and producing new musicals that achieve national exposure, training young people in theatre skills, developing appreciation for live theatre and promoting positive values through art.

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

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. The Theatre's unrestricted net assets result from transactions for services and programs sponsored by the Theatre and receipt of unrestricted grants and gifts.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Theatre and/or the passage of time. It is the Theatre's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net assets class category.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Theatre.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Allocation of Functional Expenses - Certain costs incurred by the Theatre have been allocated among production and program, general and administrative, and fundraising based on estimates and evaluations made by management.

Cash and Cash Equivalents - The Theatre considers cash and cash equivalents to include all highly liquid investments purchased with an original maturity of three months or less.

Receivables - Accounts, pledges and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, pledges or grants receivable. There was no valuation allowance for accounts or grants receivable at August 31, 2017 and 2016. See Note 3 for allowance for doubtful accounts for pledges receivable.

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Notes to Financial Statements For the Year Ended August 31, 2017 (With Comparative Totals for 2016)

Note 1 - Continued

Investments - Investments in mutual funds with readily determinable market values are recorded at fair value using Level 1 inputs. Unrealized and realized gains and losses on investments are reported on the statement of activities and changes in net assets.

Property and Equipment - The Theatre's buildings and improvements, furniture and equipment, and vehicles are stated at cost if purchased, or fair market value on the date of receipt if contributed. All property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 25 years. Buildings are depreciated on a straight-line basis over 40 to 50 years. Leasehold improvements are depreciated over the remaining life of the lease.

The Theatre capitalizes property and equipment with individual costs in excess of \$1,000 and a useful life extending beyond one year. All other property and equipment not meeting these criteria is expensed as incurred.

Deferred Revenue and Production Costs - Advanced ticket sales and the related production costs are deferred and recognized as income and expense as performances are staged. Deferred revenue also includes approximately \$103,000 in unredeemed gift certificates at August 31, 2017.

Financial Instruments and Credit Risk Concentration - The Theatre holds substantially all of its cash and cash equivalents with financial institutions with balances that may, at times, exceed federally insured deposit limits. The Theatre monitors the viability of the financial institutions on a regular basis.

At August 31, 2017, 30% of the Theatre's pledges and grants receivable balance outstanding were from two donors/grantors and there was no concentration in contributed support. At August 31, 2016, 20% of the Theatre's pledges receivable balance outstanding was from one donor and there was no concentration in contributed support.

In-Kind Contributions - A substantial number of volunteers, including members of the Board of Directors, have made significant contributions of time to the Theatre. The value of this contributed time does not meet the criteria for recognition under current accounting standards, and accordingly, is not reflected in the accompanying financial statements. Certain professional services, formally documented and charged to the relevant projects, are recorded in the accompanying financial statements. These services are primarily for performer travel, fundraising, printing and advertising, and are valued based on what the Theatre would have paid for these services in the market had they not been contributed. Contributions of materials recorded in the current year, based on the market values at the time of contribution, have also been recorded. Donated materials consist primarily of food donated for special events, computers, office furniture, and fundraising materials.

The value of donated goods and services included in the financial statements and the corresponding expenses for the years ended August 31, are as follows:

	<u>2017</u>	<u>2016</u>
Donated catering, travel and printing	\$ 177,554	\$ 126,369
Donated materials	<u>32,618</u>	<u>30,209</u>
	<u><u>\$ 210,172</u></u>	<u><u>\$ 156,578</u></u>

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Notes to Financial Statements For the Year Ended August 31, 2017 (With Comparative Totals for 2016)

Note 1 - Continued

Advertising - The Theatre expenses advertising costs as they are incurred. Total advertising expense for the years ended August 31, 2017 and 2016, was \$848,119 and \$812,139 respectively.

Federal Income Taxes - The Internal Revenue Service (IRS) has determined that the Theatre is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Change in Accounting Principle - During 2017, the Theatre implemented the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2015-03 – *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU-2015-03 changes the accounting for debt issuance costs (financing costs) by requiring that such costs are reported on the balance sheet as a direct deduction to the related liability. Previously, loan fees were reported as a deferred charge asset on the balance sheet. The Theatre has restated the 2016 financial statements to conform to the 2017 presentation and as a result, \$5,946 of unamortized financing costs were reclassified from capitalized costs to long-term debt on the balance sheet as of December 31, 2016.

Loan Fees - Loan fees are recorded as a direct deduction to the related debt liability on the statement of financial position (Note 5).

Intermediate Measure of Change in Net Assets - The intermediate measure of the change in net assets displayed on the statement of activities and changes in net assets does not include noncash depreciation and capital campaign activity.

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

Summarized Information for Prior Year - 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Theatre's financial statements for the year ended August 31, 2016, from which the summarized information was derived.

Subsequent Events - The Theatre has evaluated subsequent events through November 14, 2017, the date on which the financial statements were available to be issued.

Note 2 - Capital and Endowment Fund Campaign

Beginning in August 31, 2005, the Theatre began a capital campaign. The campaign goal as of August 31, 2017 is \$10 million. As of August 31, 2017 and 2016, \$9,818,752 and \$9,797,339, respectively, had been pledged or given towards that goal. The campaign proceeds were used to purchase land and build new scene, prop and paint shops (Technical Studios) in 2007, reconstruct First Stage in 2011, convert an Everett City building into a theatre and education facility (Cope Gillette Theatre) in 2013 and cover the cost of the campaign.

During the year ended August 31, 2016, the Theatre launched an endowment campaign as part of the Board's long-term strategic plan to grow the endowment to help provide future financial stability. The goal for this endowment campaign is \$14 million.

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Notes to Financial Statements For the Year Ended August 31, 2017 (With Comparative Totals for 2016)

Note 3 - Pledges Receivable

Pledges receivable are unconditional promises to give. Pledges for investment in long-term assets are classified as long-term on the statement of financial position regardless of how soon they are expected to be collected. Long-term pledges are discounted in the year they are received. Discount rates were approximately 2% and 1% for the years ended August 31, 2017 and 2016, respectively, and ranged from 1% to 2% for all pledges received in prior years.

Future collections of pledges receivable at August 31 are expected as follows:

	<u>2017</u>	<u>2016</u>
Receivables due in less than one year	\$ 360,862	\$ 543,165
Receivables due in two to five years	160,060	249,382
Less allowance for doubtful pledges	(25,500)	(25,500)
Less present value discount	<u>(3,048)</u>	<u>(4,150)</u>
Total Pledges Receivable	<u>\$ 492,374</u>	<u>\$ 762,897</u>

Reconciliation to amounts on the statement of financial position:

	<u>2017</u>	<u>2016</u>
Current pledges receivable	\$ 145,140	\$ 156,921
Long-term pledges and grants receivable	83,499	48,962
Pledges and grants restricted for long-term purposes	<u>263,735</u>	<u>557,014</u>
Total Pledges Receivable	<u>\$ 492,374</u>	<u>\$ 762,897</u>

Note 4 - Property and Equipment

Property and equipment is comprised of the following at August 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,848,762	\$ 1,848,762
Buildings and improvements	11,986,597	11,934,128
Theatre equipment	1,703,247	1,665,740
Office equipment, furniture and fixtures	1,074,872	1,023,107
Automobiles	6,922	6,922
Construction in progress	<u>9,050</u>	<u>4,200</u>
	16,629,450	16,482,859
Less accumulated depreciation	<u>(6,217,291)</u>	<u>(5,788,366)</u>
Total Property and Equipment, Net	<u>\$ 10,412,159</u>	<u>\$ 10,694,493</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2017 (With Comparative Totals for 2016)

Note 5 - Line-of-Credit and Notes Payable

Line-of-Credit - The Theatre has a line-of-credit agreement with a bank for \$950,000. The interest rate for all borrowed amounts against the line-of-credit is a variable rate of prime plus 1% with a floor of 5.0% (interest rate was 5.0% at August 31, 2017), and the line is secured by a deed of trust on the Technical Studio. The line-of-credit agreement matures in July 2019. The Theatre did not have an outstanding balance at August 31, 2017 and 2016.

Notes Payable - The Theatre entered into a note payable on June 15, 2012, in the initial amount of \$2,845,000. The note was payable in monthly installments of \$18,533 including interest of 4.75%. The interest rate is fixed for the first five years and then is subject to an adjustment based on the five year Constant Maturity Treasury rate plus 3.5%. The interest rate and monthly installments were adjusted to 5.28% and \$15,623 in July of 2017. The note is secured by a deed of trust on the Theatre building. The balance is due in July 2022. The note contains restrictive covenants which include, but are not limited to, the achievement of certain financial ratios on a quarterly or annual basis. The Theatre was in compliance with those covenants as of August 31, 2017.

Future principal payments on the note payable are as follows:

For the Year Ending August 31,

2018	\$	88,197
2019		92,968
2020		97,997
2021		103,298
2022		<u>1,538,251</u>
		1,920,711
Less loan fees		<u>(10,097)</u>
	\$	<u>1,910,614</u>

Long-term debt as presented on the balance sheet is offset by net capitalized loan fees of \$10,097 and \$5,946 as of December 31, 2017 and 2016.

Note 6 - Fund-Raising Events

The Theatre conducted the following major fund-raising events during the years ended August 31:

	<u>Gala and Auction</u>	<u>Sing It Forward</u>	<u>2017 Total</u>	<u>2016 Total</u>
Gross revenues	\$ 535,311	\$ 173,056	\$ 708,367	\$ 594,171
Event expenses	<u>(124,917)</u>	<u>(23,740)</u>	<u>(148,657)</u>	<u>(136,982)</u>
Excess of Fund-Raising Revenues Over Expenses	<u>\$ 410,394</u>	<u>\$ 149,316</u>	<u>\$ 559,710</u>	<u>\$ 457,189</u>

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**Notes to Financial Statements
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)**

Note 6 - Continued

The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2017 or 2016, and the revenues represent only the unrestricted revenues associated with the event.

Note 7 - Everett Performing Arts Center

In September 2014, the Theatre renewed an agreement with the City of Everett (the City) to carry out the administrative duties of running the Everett Performing Arts Center (the Center), along with presenting a season of its own theatrical productions at the Center. The terms of the agreement provide the Theatre with annual management service fees of \$287,534 from the date of the renewal through the year ended August 31, 2018, and inflation adjusted amounts for subsequent years (\$297,393 for the year ended August 31, 2017). The City has agreed to pay the service fees to the Theatre in monthly installments through August 2018.

Any third-party rental revenue collected by the Theatre will be remitted to the City, including rent paid by the Theatre for its performances in the facility, and is included as cash held for others on the accompanying statement of financial position. Additional labor and service charges billed to third parties are retained by the Theatre.

Note 8 - Commitments and Contingencies

Operating Leases - The Theatre has several operating leases for office space and equipment, storage and a parking lot, which expire through 2021, or are on a month-to-month basis. Total rental expense for the years ended August 31, 2017 and 2016, was \$234,563 and \$210,449, respectively.

At August 31, 2017, future minimum rental payments under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2018	\$	68,910
2019		68,028
2020		53,028
2021		51,872
		<hr/>
	\$	241,838

Tenant Leases - The Theatre has tenants who lease office space, retail space and wireless communication antennae at the Francis J. Gaudette Theatre, with terms that expire through 2031. Total rental revenue for the years ended August 31, 2017 and 2016, was \$207,523 and \$191,851, respectively.

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Notes to Financial Statements For the Year Ended August 31, 2017 (With Comparative Totals for 2016)

Note 8 - Continued

At August 31, 2017, future minimum rental receipts for the next five years under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2018	\$	159,273
2019		161,803
2020		164,871
2021		170,562
2022		111,424
Thereafter		<u>825,020</u>
	\$	<u><u>1,592,953</u></u>

Pension Plan - The Theatre maintains an employee self-directed retirement plan (the Plan) under Internal Revenue Code Section 403(b) which covers employees who meet certain eligibility requirements. The Theatre matches 50% of employee contributions up to 3% of the employees' base salary. During the years ended August 31, 2017 and 2016, employer contributions of \$52,424 and \$46,249, respectively, were contributed to the Plan.

Performer Contracts - The Theatre has entered into noncancelable contracts with performers for productions through May 2018. Future payments committed to under these contracts, which are contingent on services being provided by the performers, amount to \$57,640 and \$70,950 at August 31, 2017 and 2016, respectively.

Labor Contracts - The Theatre signed a four-year agreement with the Actors' Equity Association, effective July 29, 2013, which specifically details wage and benefit rates and other requirements. The Theatre also signed a one-year renewal agreement with the Actor's Equity Association, effective July 30, 2017 and expiring on July 29, 2018. Under both agreements the Theatre has an obligation to pay a pension contribution of 8.0% of negotiated salaries to Actors' Equity Association union members. As part of the contract, the Theatre is also required to secure cash reserves equal to a defined percentage of season salary contracts. These amounts were \$151,196 and \$144,035 at August 31, 2017 and 2016, respectively, for the 2017/2018 and 2016/2017 seasons, and are reported as reserved cash on the statement of financial position.

The Theatre negotiated an agreement with the American Federation of Musicians Local 76-493, effective August 15, 2015 through August 14, 2019. This agreement establishes escalating wage and benefit rates for the musicians. Under the Musicians' Union agreement, the Theatre has an obligation to pay a pension contribution of 8.72% of salaries for both union and nonunion musicians.

The Theatre signed a three year agreement with the IATSE Local 15 and 887 effective August 31, 2015. Under this agreement, the Theatre has an obligation to pay pension contributions of 4% of the salaries of union members. This contract is effective through August 26, 2018.

At August 31, 2017, 39 percent of the Theatre's total labor force is covered by the collective bargaining agreements described above, including 11 percent of the labor force operating under the Actors' Equity Association agreement and 25 percent of the labor force operating under the IATSE Local 15 and 887 agreement, which expire within the next year.

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Notes to Financial Statements For the Year Ended August 31, 2017 (With Comparative Totals for 2016)

Note 9 - Expenses on a Functional Basis

Expenses on a fully functional basis as defined by U.S. GAAP, including an allocation of depreciation expense for the years ended August 31 are as follows:

	<u>2017</u>	<u>2016</u>
Production and program	\$ 11,095,976	\$ 10,139,355
General and administrative	924,191	900,244
Fundraising	<u>908,199</u>	<u>811,110</u>
	<u>\$ 12,928,366</u>	<u>\$ 11,850,709</u>

Note 10 - Related Party

During the year ended August 31, 2017, the Theatre's board president-elect served as the Senior Vice President of a local bank with which the Theatre has a deposit relationship.

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at August 31:

	<u>2017</u>	<u>2016</u>
Operations and productions	\$ 122,834	\$ 156,516
Restricted for use in future periods	246,973	116,487
Accumulated unspent earnings on endowment	<u>30,854</u>	<u>15,080</u>
	<u>\$ 400,661</u>	<u>\$ 288,083</u>

Note 12 - Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at August 31:

	<u>2017</u>	<u>2016</u>
General endowment	\$ 41,036	\$ 6,036
Youth education endowment	2,500	2,500
Village Originals endowment	<u>8,895</u>	<u>7,895</u>
	<u>\$ 52,431</u>	<u>\$ 16,431</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2017 (With Comparative Totals for 2016)

Note 13 - Endowment

The Theatre's endowments consist of donor-restricted funds established for general operations, youth education, Village Originals, and a board designated quasi-endowment. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Board of Directors of the Theatre has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations on the contrary. As a result of this determination, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Board 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 Theatre and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and appreciation of investments;
- Other resources of the Theatre; and
- The investment policies of the Theatre.

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 PMIFA requires the Theatre to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported as unrestricted net assets. There were no deficiencies of this nature as of August 31, 2017 and 2016.

Return Objectives and Risk Parameters - The Theatre has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Theatre must hold in perpetuity or for donor-specified periods.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate of return objectives, the Theatre relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield, such as interest and dividends. The Theatre invests its endowment funds in mutual funds. The expected time horizon of the Fund is at least ten years.

VILLAGE THEATRE

Notes to Financial Statements
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)

Note 13 - Continued

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Theatre has a policy of appropriating for distribution each year a maximum of 5% of its endowment fund's total fair value over the prior 3 years rolling average. This is consistent with the Theatre's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Changes to endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 1, 2015	\$ -	\$ 14,617	\$ 16,431	\$ 31,048
Endowment investment return- Unrealized gain		<u>463</u>		<u>463</u>
Endowment Net Assets, August 31, 2016		15,080	16,431	31,511
Endowment investment return- Interest and dividends		805		805
Unrealized gain	470	14,969		15,439
Board designations Contributions	<u>10,000</u>		<u>36,000</u>	<u>36,000</u>
Endowment Net Assets, August 31, 2017	<u>\$ 10,470</u>	<u>\$ 30,854</u>	<u>\$ 52,431</u>	<u>\$ 93,755</u>

Separate funds within the endowment are comprised of the following at August 31, 2017:

	<u>Accumulated Unspent Earnings</u>	<u>Corpus</u>	<u>Total</u>
General endowment	\$ 16,990	\$ 41,036	\$ 58,026
Youth education endowment	3,657	2,500	6,157
Village Originals endowment	10,207	8,895	19,102
Board designated endowment	<u>470</u>	<u>10,000</u>	<u>10,470</u>
	<u>\$ 31,324</u>	<u>\$ 62,431</u>	<u>\$ 93,755</u>

SUPPLEMENTARY INFORMATION

VILLAGE THEATRE

**Statement of Functional Expenses
For the Year Ended August 31, 2017
(With Comparative Totals for 2016)**

	Production and Program	General and Administrative	Fundraising	2017 Total	2016 Total
Salaries and employee benefits	\$ 7,092,477	\$ 471,460	\$ 574,134	\$ 8,138,071	\$ 7,385,930
Advertising and public relations	798,291	3,609	46,219	848,119	812,139
Rights and royalties	628,801		261	629,062	594,712
Sets and costumes	463,368		49	463,417	345,173
Facility rental and maintenance	343,574	47,241	2,915	393,730	430,045
Box office and front of house	390,119			390,119	377,056
Travel and entertainment	286,720	18,335	81,270	386,325	357,354
Charge card discounts	198,136	5,189	9,811	213,136	179,933
Supplies	136,384	31,291	4,763	172,438	148,581
Event catering and supplies	1,891	323	143,739	145,953	125,154
Utilities	128,710	11,218	2,961	142,889	136,317
Interest and loan fees	5,841	105,786		111,627	115,671
Data processing	13,750	75,772	270	89,792	104,983
Scholarships	86,190			86,190	46,467
Training and dues	23,199	51,361	8,035	82,595	53,620
Insurance	52,618	4,294	1,708	58,620	51,686
Professional fees		32,848	5,000	37,848	31,445
Telephone	18,189	2,204	414	20,807	22,970
Postage	13,337	1,683	813	15,833	20,337
Change in estimate of allowance for doubtful accounts		175	15,028	15,203	14,485
Government taxes and fees	1,343	6,513	5	7,861	6,722
Printing	1,939	386	961	3,286	4,614
Equipment rental	1,809	117	41	1,967	2,406
Miscellaneous	30,779	1,360		32,139	32,785
Total Expenses Before Depreciation and Capital Campaign Expenses	10,717,465	871,165	898,397	12,487,027	11,400,585
Depreciation	378,511	52,512	9,363	440,386	448,159
Capital campaign expenses		514	439	953	1,965
Total Functional Expenses	\$ 11,095,976	\$ 924,191	\$ 908,199	\$ 12,928,366	\$ 11,850,709

See independent auditor's report.