

***VILLAGE THEATRE***

Financial Statements

For the Year Ended August 31, 2012

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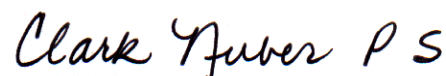
***Independent Auditors' Report******Board of Directors  
Village Theatre***

We have audited the accompanying statement of financial position of Village Theatre (the Theatre), as of August 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Theatre's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Theatre's 2011 financial statements and, in our report dated November 8, 2011, we expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the year ended August 31, 2012, presented on page 13, is presented for additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Theatre's 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.



Certified Public Accountants  
November 13, 2012

## VILLAGE THEATRE

### Statement of Financial Position For the Year Ended August 31, 2012 (With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 815,654	\$ 1,344,168
Reserved cash (Note 8)	106,502	96,063
Cash held for others (Note 7)	4,909	4,267
Accounts receivable	43,810	24,193
Pledges receivable, net (Note 3)	218,875	274,113
Grants receivable	167,285	291,169
Deferred production costs	800,269	663,288
Other current assets	38,726	51,307
<b>Total Current Assets</b>	<b>2,196,030</b>	<b>2,748,568</b>
Long-term pledges receivable (Note 3)	70,364	148,033
Pledges restricted for long-term purposes (Note 3)	260,765	77,604
Property and equipment, net of accumulated depreciation (Note 4)	11,400,551	11,659,889
Other long-term assets	28,193	32,025
<b>Total Assets</b>	<b>\$ 13,955,903</b>	<b>\$ 14,666,119</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 82,770	\$ 114,061
Construction payable		185,143
Accrued wages and taxes	96,855	65,140
Deposits held in custody for others (Note 7)	4,909	4,267
Deferred revenue	3,559,278	3,455,176
Construction line of credit (Note 5)		686,000
Current portion of long-term debt (Note 5)	89,530	83,703
<b>Total Current Liabilities</b>	<b>3,833,342</b>	<b>4,593,490</b>
Long-term debt, less current portion (Note 5)	2,750,076	2,031,386
<b>Total Liabilities</b>	<b>6,583,418</b>	<b>6,624,876</b>
<b>Net Assets:</b>		
Unrestricted	7,046,269	7,581,845
Temporarily restricted (Note 1)	310,285	444,417
Permanently restricted (Note 1)	15,931	14,981
<b>Total Net Assets</b>	<b>7,372,485</b>	<b>8,041,243</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 13,955,903</b>	<b>\$ 14,666,119</b>

See accompanying notes.

**VILLAGE THEATRE**

**Statement of Activities and Changes in Net Assets  
For the Year Ended August 31, 2012  
(With Comparative Totals for 2011)**

	2012				Total	2011 Total
	Unrestricted	Temporarily Restricted Additions	Releases	Permanently Restricted		
<b>Revenue and Support:</b>						
Revenue-						
Ticket sales	\$ 5,398,106	\$ -	\$ -	\$ -	\$ 5,398,106	\$ 5,735,710
Tuition	648,477				648,477	518,846
Leases and other income	557,475				557,475	509,867
Management fees (Note 7)	270,786				270,786	262,506
Interest income	1,491				1,491	4,002
<b>Total revenue</b>	<b>6,876,335</b>				<b>6,876,335</b>	<b>7,030,931</b>
Support-						
Corporate sponsorships and contributions	205,381	135,000	(80,000)		260,381	193,714
Patron contributions	785,976	24,832	(90,150)		720,658	926,926
Foundation support	76,859		(3,000)		73,859	52,560
Government grants	164,038				164,038	126,057
Fund-raising events, gross (Note 6)	295,498				295,498	274,226
ArtsFund	111,570				111,570	106,815
In-kind (Note 1)	72,586				72,586	69,000
<b>Total support</b>	<b>1,711,908</b>	<b>159,832</b>	<b>(173,150)</b>		<b>1,698,590</b>	<b>1,749,298</b>
<b>Total Revenue and Support</b>	<b>8,588,243</b>	<b>159,832</b>	<b>(173,150)</b>		<b>8,574,925</b>	<b>8,780,229</b>
<b>Expenses:</b>						
Production and program	7,761,981				7,761,981	7,555,999
General and administrative	636,923				636,923	575,847
Fundraising	436,645				436,645	450,150
<b>Total Expenses</b>	<b>8,835,549</b>				<b>8,835,549</b>	<b>8,581,996</b>
<b>Change in Net Assets before Depreciation, Amortization and Capital Campaign</b>	<b>(247,306)</b>	<b>159,832</b>	<b>(173,150)</b>		<b>(260,624)</b>	<b>198,233</b>
Depreciation and amortization	(446,664)				(446,664)	(328,051)
<b>Capital Campaign:</b>						
Corporate contributions	13,466			50	13,516	12,039
Patron contributions	328,968		(123,235)	900	206,633	89,529
Foundation support						500,000
Government grants						20,000
Interest income	25	2,421			2,446	851
In-kind (Note 1)	5,100				5,100	
Other income						53,624
Capital campaign expense	(189,165)				(189,165)	(142,345)
<b>Total Capital Campaign</b>	<b>158,394</b>	<b>2,421</b>	<b>(123,235)</b>	<b>950</b>	<b>38,530</b>	<b>533,698</b>
<b>Total Change in Net Assets</b>	<b>(535,576)</b>	<b>162,253</b>	<b>(296,385)</b>	<b>950</b>	<b>(668,758)</b>	<b>403,880</b>
Combining of temporarily restricted columns		(296,385)	296,385			
<b>Total Change in Net Assets</b>	<b>(535,576)</b>	<b>(134,132)</b>		<b>950</b>	<b>(668,758)</b>	<b>403,880</b>
<b>Net Assets:</b>						
Net assets, beginning of year	7,581,845	444,417		14,981	8,041,243	7,637,363
<b>End of Year</b>	<b>\$ 7,046,269</b>	<b>\$ 310,285</b>	<b>\$ -</b>	<b>\$ 15,931</b>	<b>\$ 7,372,485</b>	<b>\$ 8,041,243</b>

See accompanying notes.

## VILLAGE THEATRE

### Statement of Cash Flows For the Year Ended August 31, 2012 (With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
<b>Operating Activities:</b>		
Change in net assets	\$ (668,758)	\$ 403,880
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation	446,664	328,051
Contributions of fixed assets		(10,000)
Amortization of loan fees	18,817	2,536
Contributions classified as financing activities	(220,149)	(621,568)
Cash (used) provided by changes in operating assets and liabilities:		
Cash held for others	(642)	25,274
Reserved cash	(10,439)	(13,791)
Accounts receivable	(19,617)	(3,460)
Pledges receivable	19,308	527,315
Grants receivable	123,884	(48,626)
Deferred production costs	(136,981)	76,875
Other assets	(2,404)	37,581
Accrued wages and taxes	31,715	11,363
Accounts payable	(31,291)	9,988
Construction payable	(185,143)	
Deposits held in custody for others	642	(25,274)
Deferred season sales	104,102	96,448
<b>Net Cash (Used) Provided by Operating Activities</b>	<b>(530,292)</b>	<b>796,592</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of fixed assets	(187,326)	(2,961,583)
<b>Net Cash Used by Investing Activities</b>	<b>(187,326)</b>	<b>(2,961,583)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from construction loan and line of credit		1,919,800
Principal payments on construction loan and long-term debt	(2,806,483)	(564,134)
Proceeds from long-term debt	2,845,000	
Proceeds from contributions restricted for long-term purposes	150,587	1,088,752
<b>Net Cash Provided by Financing Activities</b>	<b>189,104</b>	<b>2,444,418</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(528,514)</b>	<b>279,427</b>
Cash and Cash Equivalents, beginning of year	1,344,168	1,064,741
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 815,654</b>	<b>\$ 1,344,168</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 147,078	\$ 82,772
Noncash fixed asset acquisitions	\$ -	\$ 195,143

See accompanying notes.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2012

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#### 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 and revenues, expenses, 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. Temporarily restricted net assets at August 31 are held for the following:

	<u>2012</u>	<u>2011</u>
Operations and productions	\$ 135,000	\$ 83,000
Restricted for use in future periods	172,864	238,182
Restricted for capital campaign	2,421	123,235
	<u><u>\$ 310,285</u></u>	<u><u>\$ 444,417</u></u>

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Theatre. In the year ending August 31, 2005, a general endowment was created by donors to help provide financial stability. For the years ended August 31, 2012 and 2011, the permanently restricted net assets were \$15,931 and \$14,981, respectively.

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.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2012

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#### Note 1 - Continued

**Pledges Receivable** - Unconditional promises to give (pledges) are recognized as revenues in the period in which the pledge is received. An allowance has been provided for uncollectible pledges receivable.

**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 are 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.

**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, 2012, 53% of the Theatre's pledges receivable balance outstanding was from three donors. At August 31, 2011, 74% of the Theatre's pledges receivable balance outstanding was from four donors and 21% of the Theatre's total contributed support was from one donor.

**In-Kind Contributions** - A substantial number of volunteers, including the 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>2012</u>	<u>2011</u>
Donated professional services	\$ 68,895	\$ 55,881
Donated materials	<u>8,791</u>	<u>13,119</u>
	<u><b>\$ 77,686</b></u>	<u><b>\$ 69,000</b></u>



## ***VILLAGE THEATRE***

### ***Notes to Financial Statements For the Year Ended August 31, 2012***

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#### ***Note 1 - Continued***

**Advertising** - The Theatre expenses advertising costs as they are incurred. Total advertising expense for the years ended August 31, 2012 and 2011, was \$617,603 and \$582,808, respectively.

**Federal Income Taxes** - The IRS has determined that the Theatre is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Theatre files income tax returns with the U.S. government. The Organization is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles (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 GAAP. Accordingly, such information should be read in conjunction with the Theatre's financial statements for the year ended August 31, 2011, from which the summarized information was derived.

**Subsequent Events** - The Theatre has evaluated subsequent events through November 13, 2012, the date on which the financial statements were available to be issued.

#### ***Note 2 - Capital and Endowment Fund Campaign***

During the year ended August 31, 2005, the Theatre began a capital and endowment fund campaign. The campaign proceeds are being used to purchase land and build new scene, prop and paint shops (Technical studios), reconstruct First Stage, convert an Everett City building into a theatre and education facility, provide financial stability by establishing an endowment, retire the current mortgage, and cover the cost of the campaign. The campaign goal as of August 31, 2012, is \$13.8 million. As of August 31, 2012 and 2011, \$8,580,575 and \$6,858,338, respectively, had been pledged or given towards that goal. The Theatre has also received \$250,000 in conditional grants that will not be recorded until the specified conditions are met. These conditional grants are not included in the total amounts pledged and given towards the goal as stated above.

#### ***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. Discount rates were approximately 1% for the years ended August 31, 2012 and 2011, and ranged from 1% to 6% for all pledges received in prior years.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2012

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#### Note 3 - Continued

Future collections of pledges receivable at August 31:

	<u>2012</u>	<u>2011</u>
Receivables due in less than one year	\$ 378,319	\$ 279,613
Receivables due in two to five years	200,034	250,500
Less allowance for doubtful pledges	(25,500)	(25,500)
Less present value discount	<u>(2,849)</u>	<u>(4,863)</u>
<b>Total Pledges Receivable</b>	<b><u>\$ 550,004</u></b>	<b><u>\$ 499,750</u></b>

Reconciliation to amounts on the statement of financial position:

Current operating pledges receivable	\$ 218,875	\$ 160,514
Current pledges to be applied to pay down construction loan and construction payable		<u>113,599</u>
Total current pledges receivable	218,875	274,113
Long-term pledges receivable	70,364	148,033
Pledges restricted for long-term purposes	<u>260,765</u>	<u>77,604</u>
<b>Total Pledges Receivable</b>	<b><u>\$ 550,004</u></b>	<b><u>\$ 499,750</u></b>

#### Note 4 - Property and Equipment

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

	<u>2012</u>	<u>2011</u>
Land	\$ 1,466,213	\$ 1,466,213
Buildings and improvements	11,754,414	10,683,118
Theatre equipment	1,472,900	1,409,164
Office equipment, furniture and fixtures	879,738	833,260
Automobiles	<u>27,860</u>	<u>24,536</u>
	15,601,125	14,416,291
Less accumulated depreciation	<u>(4,200,574)</u>	<u>(3,756,524)</u>
	11,400,551	10,659,767
Construction in progress		<u>1,000,122</u>
<b>Total Property and Equipment</b>	<b><u>\$ 11,400,551</u></b>	<b><u>\$ 11,659,889</u></b>

During the year ended August 31, 2012, the Everett Youth Education Center project was completed. Total interest costs incurred during construction of this project were capitalized in the amount of \$10,668 through August 31, 2012.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2012

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#### Note 5 - Lines of Credit and Notes Payable

**Lines of Credit** - The Theatre has a line of credit agreement with a bank for \$800,000. The interest rate for all borrowed amounts against the line of credit is a variable rate of prime plus 1% with a floor of 5.75% (interest rate was 5.75% at August 31, 2012), and the line is secured by a deed of trust on the Technical Studio. The line of credit agreement matures in July 2013. The Theatre did not have an outstanding balance at August 31, 2012 and 2011.

During the year ended August 31, 2011, the Theatre entered into a line of credit agreement with a bank for \$900,000. The interest rate for all borrowed amounts against the line of credit was a variable rate of prime plus 1% with a floor of 5% (interest rate was 5% at August 31, 2011), and the line was secured by a second deed of trust on the Theatre building. The outstanding balance at August 31, 2011 was \$686,000. In June 2012, this line was consolidated into a new note payable.

**Notes Payable** - At August 31, 2011, the Theatre had a note payable outstanding of \$847,519 which was originally entered into in December 2002 in the amount of \$1,155,000. The note was payable in monthly installments of \$7,917 including interest at 4.375%. The interest rate was subject to adjustment every three years based on the three year Constant Maturity Treasury plus 3.2%. The note was secured by a deed of trust on the Theatre building. The balance was originally due in December 2022. In June 2012, this note was consolidated into a new note payable.

During the year ended August 31, 2011, the Theatre converted a Commercial-Draw agreement into a note payable in the amount of \$1,775,139. The note was payable in monthly installments of \$8,070 including interest at 5.75%. The interest rate was based on the one year Treasury Index plus 3% with a floor of 5.75%. The note was secured by a deed of trust on the Theatre building. The balance was originally due in April 2018. The outstanding balance at August 31, 2011 was \$1,267,570. In June 2012, this note was consolidated into a new note payable.

In June 2012, the Theater consolidated all of its outstanding debt into one note payable in the amount of \$2,845,000. The note is 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 the five year Constant Maturity Treasury rate plus 3.5%. The note was secured by a deed of trust on the Theatre building. The balance is due in July 2022. The outstanding balance at August 31, 2012 is \$2,839,606. The agreement contains restrictive covenants which include, but are not limited to, the achievement of certain financial ratios on a quarterly or annual basis. At August 31, 2012, the Theatre was not in compliance with the debt coverage ratio. Subsequent to year end, the bank waived this covenant requirement for the year-ended August 31, 2012.

Future principal payments on the note payable are as follows:

*For the Year Ending August 31,*

2013	\$	89,530
2014		93,796
2015		98,349
2016		103,124
2017		108,130
Thereafter		<u>2,346,677</u>
		<u><b>\$ 2,839,606</b></u>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2012

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#### 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>2012 Total</u>	<u>2011 Total</u>
Gross unrestricted revenues	\$ 287,598	\$ 7,950	\$ 295,548	\$ 274,226
Direct expenses	<u>(74,816)</u>	<u>(2,994)</u>	<u>(77,810)</u>	<u>(78,481)</u>
<b>Excess of Fund-Raising Revenues over Expenses</b>	<b><u>\$ 212,782</u></b>	<b><u>\$ 4,956</u></b>	<b><u>\$ 217,738</u></b>	<b><u>\$ 195,745</u></b>

The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2012 or 2011, and the revenues represent only the unrestricted revenues associated with the event.

#### Note 7 - Everett Performing Arts Center

In September 2006, the Theatre entered into a renewed 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 \$270,786 through the year ending August 31, 2012, and inflation adjusted amounts for subsequent years. The City has agreed to pay the service fees to the Theatre in monthly installments, and the agreement continues through August 2014.

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. The amount held related to amounts collected from third-party rentals at August 31, 2012 and 2011, was \$4,909 and \$4,267, respectively. 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 2016, or are on a month-to-month basis. Total rental expense for the years ended August 31, 2012 and 2011, was \$164,384 and \$160,439, respectively.

At August 31, 2012, future minimum rental payments under all noncancelable operating leases are as follows:

*For the Year Ending August 31,*

2013	\$ 15,134
2014	12,054
2015	11,576
2016	<u>2,894</u>
	<b><u>\$ 41,658</u></b>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2012

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#### Note 8 - Continued

**Tenant Leases** - The Theatre has several tenants who lease office space, retail space and wireless communication antennae at the Francis J. Gaudette Theatre. Total rental revenue for the years ended August 31, 2012 and 2011, was \$160,829 and \$152,677, respectively.

At August 31, 2012, future minimum rental receipts under all noncancelable operating leases are as follows:

*For the Year Ending August 31,*

2013	\$	139,518
2014		141,699
2015		144,351
2016		149,068
2017		45,072
		<hr/>
	\$	<b><u>619,708</u></b>

**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, 2012 and 2011, employer contributions of \$32,539 and \$28,226, respectively, were made into the Plan.

**Performer Contracts** - The Theatre has entered into noncancelable contracts with performers for productions through May 2013. Future payments committed to under these contracts, which are contingent on services being provided by the performers, amount to \$49,960 and \$64,890 at August 31, 2012 and 2011, respectively.

**Labor Contracts** - The Theatre signed a three-year agreement with the Actors' Equity Association, effective August 3, 2009, which specifically details wage and benefit rates and other requirements. Under this agreement 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 \$106,502 and \$96,063 at August 31, 2012 and 2011, respectively, for the 2011/2012 and 2010/2011 seasons, and are reported as reserved cash on the statement of financial position. During the year ended August 31, 2012 the agreement was extended through July 2013. The amount that will be required for the 2012/2013 season is \$107,470.

The Theatre negotiated an agreement with the American Federation of Musicians Local 76-493, effective August 1, 2012 through August 15, 2015. 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 November 2, 2009. 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 31, 2012. In July 2012, a new three-year agreement was signed effective September 3, 2012 through September 2, 2015 with the same terms.

**VILLAGE THEATRE**

***Notes to Financial Statements  
For the Year Ended August 31, 2012***

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***Note 9 - Expenses on a Functional Basis***

Expenses on a fully functional basis as defined by GAAP for the years ended August 31 are as follows:

	<u>2012</u>	<u>2011</u>
Production and program	\$ 8,146,074	\$ 7,848,825
General and administrative	690,260	601,853
Fundraising	<u>445,879</u>	<u>459,369</u>
	<u><b>\$ 9,282,213</b></u>	<u><b>\$ 8,910,047</b></u>

***SUPPLEMENTARY INFORMATION***

**VILLAGE THEATRE**

**Statement of Functional Expenses  
For the Year Ended August 31, 2012  
(With Comparative Totals for 2011)**

	<i>Production and Program</i>	<i>General and Administrative</i>	<i>Fundraising</i>	<i>2012 Total</i>	<i>2011 Total</i>
Salaries and employee benefits	\$ 5,135,649	\$ 365,752	\$ 277,238	\$ 5,778,639	\$ 5,594,820
Advertising and public relations	589,772	1,743	26,088	617,603	582,808
Rights and royalties	471,672			471,672	439,649
Sets and costumes	333,813			333,813	367,791
Facility rental and maintenance	237,017	54,053	3,089	294,159	257,439
Box office and front of house	291,245			291,245	272,649
Travel and entertainment	186,325	6,275	31,385	223,985	216,926
Utilities	117,842	10,709	2,642	131,193	116,840
Charge card discounts	127,033	1,968		129,001	144,126
Supplies	85,771	10,529	6,054	102,354	122,332
Special events			72,243	72,243	73,982
Data processing	5,073	60,333	1,233	66,639	68,858
Miscellaneous	65,533	983		66,516	76,268
Interest and loan fees	382	61,610		61,992	54,362
Insurance	33,844	6,540	1,238	41,622	38,638
Professional fees		30,923	500	31,423	29,409
Telephone	26,520	2,790	507	29,817	28,167
Equipment rental	25,356	1,633	655	27,644	25,678
Training and dues	10,877	11,658	3,444	25,979	22,234
Postage	14,583	1,702	2,971	19,256	33,061
Change in estimate of allowance for doubtful accounts	323		7,051	7,374	6,418
Taxes	138	7,019		7,157	7,232
Printing	3,213	703	307	4,223	2,309
<b>Total Expenses before Depreciation and Amortization</b>	<b>7,761,981</b>	<b>636,923</b>	<b>436,645</b>	<b>8,835,549</b>	<b>8,581,996</b>
Depreciation and amortization	384,093	53,337	9,234	446,664	328,051
<b>Total Functional Expenses</b>	<b>\$ 8,146,074</b>	<b>\$ 690,260</b>	<b>\$ 445,879</b>	<b>\$ 9,282,213</b>	<b>\$ 8,910,047</b>

See independent auditors' report.