

***VILLAGE THEATRE***

Financial Statements

For the Year Ended August 31, 2014

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***Independent Auditor's Report******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, 2014, 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.

***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, 2014, 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.

# CLARK NUBER

Certified Public  
Accountants  
and Consultants

## ***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 for the year ended August 31, 2014, presented on page 13, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Clark Nuber P S*

Certified Public Accountants  
November 18, 2014

## VILLAGE THEATRE

### Statement of Financial Position

August 31, 2014

(With Comparative Totals for 2013)

|  | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| <b>Current Assets:</b>   |                      |                      |
| Cash and cash equivalents  | \$ 2,104,808         | \$ 1,734,376         |
| Reserved cash (Note 8)   | 98,845               | 107,470              |
| Cash held for others   | 3,356                | 4,057                |
| Accounts receivable  | 48,332               | 32,702               |
| Pledges receivable, net (Note 3)                                 | 255,906              | 148,048              |
| Grants receivable  | 164,160              | 218,543              |
| Deferred production costs  | 862,958              | 905,630              |
| Other current assets   | 102,563              | 73,792               |
| <b>Total Current Assets</b>                                      | <b>3,640,928</b>     | <b>3,224,618</b>     |
| Long-term pledges receivable (Note 3)                            | 63,046               | 44,550               |
| Pledges restricted for long-term purposes (Note 3)               | 541,457              | 469,646              |
| Property and equipment, net of accumulated depreciation (Note 4) | 10,758,036           | 11,056,679           |
| Other long-term assets   | 24,902               | 28,593               |
| <b>Total Assets</b>  | <b>\$ 15,028,369</b> | <b>\$ 14,824,086</b> |
| <b>Liabilities and Net Assets</b>                                |                      |                      |
| <b>Current Liabilities:</b>                                      |                      |                      |
| Accounts payable   | \$ 159,779           | \$ 103,032           |
| Accrued wages and taxes  | 217,405              | 210,877              |
| Deposits held in custody for others                              | 3,356                | 4,057                |
| Deferred revenue   | 3,878,181            | 3,698,862            |
| Current portion of long-term debt (Note 5)                       | 107,143              | 93,795               |
| <b>Total Current Liabilities</b>                                 | <b>4,365,864</b>     | <b>4,110,623</b>     |
| Long-term debt, less current portion (Note 5)                    | 2,368,075            | 2,658,271            |
| <b>Total Liabilities</b>   | <b>6,733,939</b>     | <b>6,768,894</b>     |
| <b>Net Assets:</b>   |                      |                      |
| Unrestricted   | 7,960,688            | 7,812,578            |
| Temporarily restricted (Note 1)                                  | 317,311              | 226,183              |
| Permanently restricted (Note 1)                                  | 16,431               | 16,431               |
| <b>Total Net Assets</b>  | <b>8,294,430</b>     | <b>8,055,192</b>     |
| <b>Total Liabilities and Net Assets</b>                          | <b>\$ 15,028,369</b> | <b>\$ 14,824,086</b> |

See accompanying notes.

**VILLAGE THEATRE**

**Statement of Activities and Changes in Net Assets  
For the Year Ended August 31, 2014  
(With Comparative Totals for 2013)**

|  | 2014                |                                     |                  | Total            | 2013 Total          |
|--|---------------------|-------------------------------------|------------------|------------------|---------------------|
|  | Unrestricted        | Temporarily Restricted<br>Additions | Releases         |                  |                     |
| <b>Revenue and Support:</b>  |                     |                                     |                  |                  |                     |
| Revenue-   |                     |                                     |                  |                  |                     |
| Ticket sales   | \$ 6,659,413        | \$ -                                | \$ -             | \$ -             | \$ 6,659,413        |
| Tuition  | 781,636             |                                     |                  |                  | 781,636             |
| Leases and other income  | 647,820             |                                     |                  |                  | 647,820             |
| Management fees (Note 7)   | 281,896             |                                     |                  |                  | 281,896             |
| Interest income  | 2,801               |                                     |                  |                  | 2,801               |
| Total revenue  | 8,373,566           |                                     |                  | 8,373,566        | 8,052,101           |
| Support-   |                     |                                     |                  |                  |                     |
| Corporate sponsorships and contributions   | 223,109             | 102,500                             | (85,000)         |                  | 240,609             |
| Patron contributions   | 980,240             | 126,296                             | (50,600)         |                  | 1,055,936           |
| Foundation support   | 79,486              |                                     |                  |                  | 79,486              |
| Government grants  | 160,483             |                                     |                  |                  | 160,483             |
| Fundraising events, gross (Note 6)   | 463,556             |                                     |                  |                  | 463,556             |
| ArtsFund   | 102,320             |                                     |                  |                  | 102,320             |
| In-kind (Note 1)   | 93,881              | 37,700                              | (46,100)         |                  | 85,481              |
| Total support  | 2,103,075           | 266,496                             | (181,700)        |                  | 2,187,871           |
| <b>Total Revenue and Support</b>   | <b>10,476,641</b>   | <b>266,496</b>                      | <b>(181,700)</b> |                  | <b>10,561,437</b>   |
| <b>Expenses:</b>   |                     |                                     |                  |                  |                     |
| Production and program   | 8,914,417           |                                     |                  |                  | 8,914,417           |
| General and administrative   | 751,694             |                                     |                  |                  | 751,694             |
| Fundraising  | 595,042             |                                     |                  |                  | 595,042             |
| <b>Total Expenses</b>  | <b>10,261,153</b>   |                                     |                  |                  | <b>10,261,153</b>   |
| <b>Change in Net Assets Before Depreciation,<br/>Amortization and Capital Campaign</b> | <b>215,488</b>      | <b>266,496</b>                      | <b>(181,700)</b> |                  | <b>300,284</b>      |
| Depreciation and amortization  | (435,226)           |                                     |                  |                  | (435,226)           |
| <b>Capital Campaign:</b>   |                     |                                     |                  |                  |                     |
| Corporate contributions  | 29,459              |                                     |                  |                  | 29,459              |
| Patron contributions   | 333,740             |                                     |                  |                  | 333,740             |
| Foundation support   | 50,000              |                                     |                  |                  | 50,000              |
| Government grants  |                     |                                     |                  |                  | 5,000               |
| Interest income  | 1,440               | 6,332                               |                  |                  | 7,772               |
| In-kind (Note 1)   | 2,000               |                                     |                  |                  | 2,000               |
| Capital campaign expense   | (48,791)            |                                     |                  |                  | (48,791)            |
| <b>Total Capital Campaign</b>  | <b>367,848</b>      | <b>6,332</b>                        |                  |                  | <b>374,180</b>      |
| <b>Total Change in Net Assets</b>  | <b>148,110</b>      | <b>272,828</b>                      | <b>(181,700)</b> |                  | <b>239,238</b>      |
| Combining of temporarily restricted columns  |                     | (181,700)                           | 181,700          |                  |                     |
| <b>Total Change in Net Assets</b>  | <b>148,110</b>      | <b>91,128</b>                       |                  |                  | <b>239,238</b>      |
| <b>Net Assets:</b>   |                     |                                     |                  |                  |                     |
| Net assets, beginning of year  | 7,812,578           | 226,183                             |                  | 16,431           | 8,055,192           |
| <b>End of Year</b>   | <b>\$ 7,960,688</b> | <b>\$ 317,311</b>                   | <b>\$ -</b>      | <b>\$ 16,431</b> | <b>\$ 8,294,430</b> |

See accompanying notes.

## VILLAGE THEATRE

### Statement of Cash Flows For the Year Ended August 31, 2014 (With Comparative Totals for 2013)

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| <b>Operating Activities:</b>   |                     |                     |
| Change in net assets   | \$ 239,238          | \$ 682,707          |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities- |                     |                     |
| Depreciation   | 435,226             | 440,381             |
| Contributions of fixed assets  |                     | (10,191)            |
| Amortization of loan fees  | 3,691               | 4,550               |
| Loss on the sale of fixed assets   | 308                 |                     |
| Contributions classified as financing activities   | (413,199)           | (706,119)           |
| Cash provided (used) by changes in operating assets and liabilities:                           |                     |                     |
| Cash held for others   | 701                 | 852                 |
| Reserved cash  | 8,625               | (968)               |
| Accounts receivable  | (15,630)            | 11,108              |
| Pledges receivable   | (126,354)           | 96,641              |
| Grants receivable  | 54,383              | (51,258)            |
| Deferred production costs  | 42,672              | (105,361)           |
| Other assets   | (28,771)            | (35,066)            |
| Accrued wages and taxes  | 6,528               | 114,022             |
| Accounts payable   | 56,747              | 20,262              |
| Deposits held in custody for others  | (701)               | (852)               |
| Deferred revenue   | 179,319             | 139,584             |
| <b>Net Cash Provided by Operating Activities</b>   | <b>442,783</b>      | <b>600,292</b>      |
| <b>Cash Flows From Investing Activities:</b>   |                     |                     |
| Purchase of property and equipment and other long-term assets                                  | (146,891)           | (91,268)            |
| Proceeds from the sale of property and equipment   | 10,000              |                     |
| <b>Net Cash Used by Investing Activities</b>   | <b>(136,891)</b>    | <b>(91,268)</b>     |
| <b>Cash Flows From Financing Activities:</b>   |                     |                     |
| Principal payments on long-term debt   | (276,848)           | (87,540)            |
| Proceeds from contributions restricted for long-term purposes                                  | 341,388             | 497,238             |
| <b>Net Cash Provided by Financing Activities</b>   | <b>64,540</b>       | <b>409,698</b>      |
| <b>Net Change in Cash and Cash Equivalents</b>   | <b>370,432</b>      | <b>918,722</b>      |
| Cash and cash equivalents, beginning of year   | 1,734,376           | 815,654             |
| <b>Cash and Cash Equivalents, End of Year</b>  | <b>\$ 2,104,808</b> | <b>\$ 1,734,376</b> |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                                       |                     |                     |
| Cash paid during the year for interest   | \$ 131,618          | \$ 143,948          |

See accompanying notes.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2014

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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, 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>2014</u>       | <u>2013</u>       |
|--------------------------------------|-------------------|-------------------|
| Operations and productions           | \$ 145,200        | \$ 141,100        |
| Restricted for use in future periods | 160,296           | 79,600            |
| Restricted for capital campaign      | 11,815            | 5,483             |
|                                      | <u>\$ 317,311</u> | <u>\$ 226,183</u> |

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Theatre. The Theatre's permanently restricted net assets consist of a general endowment created by donors to help provide financial stability.

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, 2014

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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, 2014, 11% of the Theatre's pledges receivable balance outstanding was from one donor and 10% of the Theatre's total contributed support was from one donor. At August 31, 2013, 22% of the Theatre's pledges receivable balance outstanding was from one donor and 29% of the Theatre's total contributed support was from two donors.

**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>2014</u>             | <u>2013</u>              |
|-------------------------------|-------------------------|--------------------------|
| Donated professional services | \$ 77,734               | \$ 131,254               |
| Donated materials             | <u>9,747</u>            | <u>19,496</u>            |
|                               | <u><b>\$ 87,481</b></u> | <u><b>\$ 150,750</b></u> |

## ***VILLAGE THEATRE***

### ***Notes to Financial Statements For the Year Ended August 31, 2014***

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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, 2014 and 2013, was \$713,807 and \$642,706 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. The Theatre files income tax returns with the U.S. government. The Theatre 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, 2013, from which the summarized information was derived.

**Subsequent Events** - The Theatre has evaluated subsequent events through November 18, 2014, 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, 2014, is \$13.8 million. As of August 31, 2014 and 2013, \$9,467,574 and \$9,151,036, respectively, had been pledged or given towards that goal.

#### ***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 1% for the years ended August 31, 2014 and 2013, 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, 2014

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#### Note 3 - Continued

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

|                                       | <u>2014</u>              | <u>2013</u>              |
|---------------------------------------|--------------------------|--------------------------|
| Receivables due in less than one year | \$ 503,051               | \$ 365,444               |
| Receivables due in two to five years  | 392,945                  | 331,162                  |
| Less allowance for doubtful pledges   | (25,500)                 | (25,500)                 |
| Less present value discount           | <u>(10,087)</u>          | <u>(8,862)</u>           |
| <b>Total Pledges Receivable</b>       | <b><u>\$ 860,409</u></b> | <b><u>\$ 662,244</u></b> |

Reconciliation to amounts on the statement of financial position:

|   |                          |                          |
|---|--------------------------|--------------------------|
| Current pledges receivable                | \$ 255,906               | \$ 148,048               |
| Long-term pledges receivable              | 63,046                   | 44,550                   |
| Pledges restricted for long-term purposes | <u>541,457</u>           | <u>469,646</u>           |
| <b>Total Pledges Receivable</b>           | <b><u>\$ 860,409</u></b> | <b><u>\$ 662,244</u></b> |

#### Note 4 - Property and Equipment

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

|  | <u>2014</u>                 | <u>2013</u>                 |
|--|-----------------------------|-----------------------------|
| Land                                     | \$ 1,466,213                | \$ 1,466,213                |
| Buildings and improvements               | 11,767,082                  | 11,757,674                  |
| Theatre equipment                        | 1,628,231                   | 1,510,621                   |
| Office equipment, furniture and fixtures | 941,538                     | 932,268                     |
| Automobiles                              | <u>6,922</u>                | <u>27,860</u>               |
|  | 15,809,986                  | 15,694,636                  |
| Less accumulated depreciation            | <u>(5,051,950)</u>          | <u>(4,637,957)</u>          |
| <b>Total Property and Equipment, Net</b> | <b><u>\$ 10,758,036</u></b> | <b><u>\$ 11,056,679</u></b> |

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2014

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

**Line 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% (interest rate was 5% at August 31, 2014), and the line is secured by a deed of trust on the Technical Studio. The line of credit agreement matures in July 2015. The Theatre did not have an outstanding balance at August 31, 2014 and 2013.

**Notes Payable** - The Theatre holds a note payable in the initial 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 is secured by a deed of trust on the Theatre building. The balance is due in July 2022. The outstanding balance at August 31, 2014 is \$2,475,218. The note contains restrictive covenants which include, but are not limited to, the achievement of certain financial ratios on a quarterly or annual basis.

Future principal payments on the note payable are as follows:

*For the Year Ending August 31,*

|            |           |                         |
|------------|-----------|-------------------------|
| 2015       | \$        | 107,143                 |
| 2016       |           | 112,345                 |
| 2017       |           | 117,799                 |
| 2018       |           | 123,518                 |
| 2019       |           | 129,514                 |
| Thereafter |           | <u>1,884,899</u>        |
|            | <b>\$</b> | <b><u>2,475,218</u></b> |

#### Note 6 - Fund-Raising Events

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

|  | <i>Gala and<br/>Auction</i> | <i>Sing It<br/>Forward</i> | <i>2014 Total</i>        | <i>2013 Total</i>        |
|--|-----------------------------|----------------------------|--------------------------|--------------------------|
| Gross unrestricted revenues                              | \$ 403,694                  | \$ 59,862                  | \$ 463,556               | \$ 382,298               |
| Direct expenses  | <u>(95,136)</u>             | <u>(8,503)</u>             | <u>(103,639)</u>         | <u>(99,436)</u>          |
| <b>Excess of Fund-Raising<br/>Revenues Over Expenses</b> | <b><u>\$ 308,558</u></b>    | <b><u>\$ 51,359</u></b>    | <b><u>\$ 359,917</u></b> | <b><u>\$ 282,862</u></b> |

The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2014 or 2013, and the revenues represent only the unrestricted revenues associated with the event.

## VILLAGE THEATRE

### *Notes to Financial Statements For the Year Ended August 31, 2014*

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#### **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 approximately \$287,534 through the year ended August 31, 2018, and inflation adjusted amounts for subsequent years. 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 2018, or are on a month-to-month basis. Total rental expense for the years ended August 31, 2014 and 2013, was \$203,061 and \$184,840, respectively.

At August 31, 2014, future minimum rental payments under all noncancelable operating leases are as follows:

*For the Year Ending August 31,*

|      |                          |
|------|--------------------------|
| 2015 | \$ 62,551                |
| 2016 | 54,834                   |
| 2017 | 50,975                   |
| 2018 | <u>49,530</u>            |
|      | <u><b>\$ 217,890</b></u> |

**Tenant Leases** - The Theatre has 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, 2014 and 2013, was \$171,407 and \$167,525, respectively.

At August 31, 2014, future minimum rental receipts for the next five years under all noncancelable operating leases are as follows:

*For the Year Ending August 31,*

|      |                          |
|------|--------------------------|
| 2015 | \$ 145,804               |
| 2016 | 150,521                  |
| 2017 | 99,728                   |
| 2018 | 72,905                   |
| 2019 | <u>72,905</u>            |
|      | <u><b>\$ 541,863</b></u> |

## VILLAGE THEATRE

### *Notes to Financial Statements* *For the Year Ended August 31, 2014*

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#### *Note 8 - Continued*

**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, 2014 and 2013, employer contributions of \$43,667 and \$34,167, respectively, were contributed to the Plan.

**Performer Contracts** - The Theatre has entered into noncancelable contracts with performers for productions through May 2015. Future payments committed to under these contracts, which are contingent on services being provided by the performers, amount to \$61,625 and \$54,098 at August 31, 2014 and 2013, 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. 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 \$98,845 and \$107,470 at August 31, 2014 and 2013, respectively, for the 2013/2014 and 2012/2013 seasons, and are reported as reserved cash on the statement of financial position. The amount that will be required for the 2014/2015 season is \$131,580.

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 September 3, 2012. 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 September 2, 2015.

#### *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>2014</u>          | <u>2013</u>         |
|----------------------------|----------------------|---------------------|
| Production and program     | \$ 9,280,617         | \$ 8,488,764        |
| General and administrative | 810,229              | 732,316             |
| Fundraising                | 605,533              | 571,341             |
|                            | <u>\$ 10,696,379</u> | <u>\$ 9,792,421</u> |

***SUPPLEMENTARY INFORMATION***

**VILLAGE THEATRE**

**Statement of Functional Expenses  
For the Year Ended August 31, 2014  
(With Comparative Totals for 2013)**

|  | <i>Production<br/>and Program</i> | <i>General and<br/>Administrative</i> | <i>Fundraising</i> | <i>2014 Total</i>   | <i>2013 Total</i>   |
|--|-----------------------------------|---------------------------------------|--------------------|---------------------|---------------------|
| Salaries and employee benefits                                 | \$ 5,911,681                      | \$ 387,943                            | \$ 393,133         | \$ 6,692,757        | \$ 6,154,082        |
| Advertising and public relations                               | 679,854                           | 3,164                                 | 30,789             | 713,807             | 642,706             |
| Rights and royalties   | 578,694                           |                                       | 477                | 579,171             | 557,657             |
| Sets and costumes  | 398,659                           |                                       |                    | 398,659             | 304,405             |
| Facility rental and maintenance                                | 280,472                           | 80,084                                | 3,168              | 363,724             | 305,722             |
| Box office and front of house                                  | 319,498                           |                                       |                    | 319,498             | 293,955             |
| Travel and entertainment                                       | 209,616                           | 7,685                                 | 46,944             | 264,245             | 220,797             |
| Supplies   | 98,821                            | 26,437                                | 4,994              | 130,252             | 121,606             |
| Interest and loan fees   | 2,155                             | 92,894                                |                    | 95,049              | 53,420              |
| Utilities  | 123,267                           | 11,238                                | 2,760              | 137,265             | 131,830             |
| Charge card discounts  | 141,632                           | 3,124                                 | 8,632              | 153,388             | 149,832             |
| Telephone  | 26,694                            | 2,860                                 | 481                | 30,035              | 32,682              |
| Data processing  | 5,395                             | 66,968                                | 340                | 72,703              | 68,357              |
| Insurance  | 32,322                            | 6,099                                 | 1,182              | 39,603              | 40,847              |
| Postage  | 13,985                            | 1,512                                 | 2,281              | 17,778              | 18,218              |
| Professional fees  |                                   | 30,810                                | 1,970              | 32,780              | 32,165              |
| Equipment rental   | 2,036                             | 139                                   | 48                 | 2,223               | 15,330              |
| Training and dues  | 15,380                            | 18,265                                | 3,642              | 37,287              | 29,906              |
| Taxes  | 294                               | 6,646                                 |                    | 6,940               | 7,041               |
| Special events   | 750                               | 3,255                                 | 83,105             | 87,110              | 93,690              |
| Printing   | 2,914                             | 421                                   | 253                | 3,588               | 5,571               |
| Change in estimate of allowance for<br>doubtful accounts       | 1,377                             |                                       | 10,843             | 12,220              | 6,002               |
| Miscellaneous  | 68,921                            | 2,150                                 |                    | 71,071              | 66,219              |
| <b>Total Expenses before Depreciation<br/>and Amortization</b> | <b>8,914,417</b>                  | <b>751,694</b>                        | <b>595,042</b>     | <b>10,261,153</b>   | <b>9,352,040</b>    |
| Depreciation and amortization                                  | 366,200                           | 58,535                                | 10,491             | 435,226             | 440,381             |
| <b>Total Functional Expenses</b>                               | <b>\$ 9,280,617</b>               | <b>\$ 810,229</b>                     | <b>\$ 605,533</b>  | <b>\$10,696,379</b> | <b>\$ 9,792,421</b> |

See independent auditor's report.