

**VILLAGE THEATRE**

Financial Statements

For the Year Ended August 31, 2018

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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, 2018, 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, 2018, 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 Summarized Comparative Information**

We have previously audited the Theatre's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **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 19, 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.

*Clark Nuber PS*

Certified Public Accountants  
November 13, 2018

# VILLAGE THEATRE

## Statement of Financial Position

August 31, 2018

(With Comparative Totals for 2017)

	2018	2017
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,568,378	\$ 2,187,150
Reserved cash (Note 9)	155,233	151,196
Cash held in escrow	35,000	
Cash held for others	280	580
Accounts receivable	47,793	42,837
Pledges receivable, net (Note 3)	357,186	145,140
Grants receivable	492,529	395,795
Deferred production costs	1,192,256	1,060,481
Other current assets	125,365	137,253
<b>Total Current Assets</b>	<b>3,974,020</b>	<b>4,120,432</b>
Endowment investments (Note 5)	734,154	93,755
Long-term pledges and grants receivable (Note 3)	70,404	83,499
Pledges and grants restricted for long-term purposes (Note 3)	152,096	263,735
Property and equipment, net of accumulated depreciation (Note 4)	10,184,190	10,412,159
Other long-term assets	15,000	15,000
<b>Total Assets</b>	<b>\$ 15,129,864</b>	<b>\$ 14,988,580</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 170,429	\$ 184,101
Accrued wages and taxes	115,662	316,390
Deposits held in custody for others	280	580
Deferred revenue	4,172,740	4,329,970
Current portion of capital lease (Note 9)	7,776	
Current portion of long-term debt (Note 6)	92,988	88,197
<b>Total Current Liabilities</b>	<b>4,559,875</b>	<b>4,919,238</b>
Long-term capital lease, less current portion (Note 8)	12,313	
Long-term debt, less current portion (Note 6)	1,725,820	1,822,417
<b>Total Liabilities</b>	<b>6,298,008</b>	<b>6,741,655</b>
<b>Net Assets:</b>		
Unrestricted	7,341,201	7,783,363
Unrestricted - Board Designated Endowment (Note 14)	12,263	10,470
Temporarily restricted (Note 12)	765,647	400,661
Permanently restricted (Notes 13 and 14)	712,745	52,431
<b>Total Net Assets</b>	<b>8,831,856</b>	<b>8,246,925</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 15,129,864</b>	<b>\$ 14,988,580</b>

See accompanying notes.

# VILLAGE THEATRE

## Statement of Activities and Changes in Net Assets For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

	2018			2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating Revenue and Support:</b>				
Revenue-				
Ticket sales	\$ 7,775,708	\$ -	\$ -	\$ 7,775,708
Tuition	1,027,851			1,027,851
Leases and other income	779,448			779,448
Management fees (Note 8)	306,286			306,286
Interest income	2,958			2,958
<b>Total revenue</b>	<b>9,892,251</b>			<b>9,892,251</b>
Support-				
Corporate sponsorships and contributions	252,317	126,000		378,317
Patron contributions	1,327,283	105,205		1,432,488
Foundation support	69,368	162,500		231,868
Government grants	154,000	18,000		172,000
Fundraising events, gross (Note 7)	882,180	3,500		885,680
ArtsFund	97,057			97,057
In-kind (Note 1)	253,424	24,000		277,424
Release of restrictions	362,512	(362,512)		
<b>Total support</b>	<b>3,398,141</b>	<b>76,693</b>		<b>3,474,834</b>
<b>Total Operating Revenue and Support</b>	<b>13,290,392</b>	<b>76,693</b>		<b>13,367,085</b>
<b>Expenses:</b>				
Production and program	11,282,063			11,282,063
General and administrative	974,262			974,262
Fundraising	1,016,404			1,016,404
<b>Total Expenses</b>	<b>13,272,729</b>			<b>13,272,729</b>
<b>Change in Net Assets From Operating Activities Before Depreciation</b>	<b>17,663</b>	<b>76,693</b>		<b>94,356</b>
Depreciation	(449,899)			(449,899)
<b>Change in Net Assets From Operating Activities</b>	<b>(432,236)</b>	<b>76,693</b>		<b>(355,543)</b>
<b>Nonoperating Activities:</b>				
Corporate capital contributions	1,500			1,500
Patron capital contributions	5,153	250,000		255,153
Government capital grants				25,000
Interest income	1,177			1,177
Change in estimate of allowance for doubtful accounts	(17,750)			(17,750)
Capital campaign expense	(5)			(5)
<b>Endowment Campaign:</b>				
Corporate contributions			15,000	15,000
Patron contributions			645,314	645,314
Interest income		934		934
Gains on investments	1,792	37,359		39,151
<b>Total Endowment Campaign</b>	<b>1,792</b>	<b>38,293</b>	<b>660,314</b>	<b>700,399</b>
<b>Total Change in Net Assets From Nonoperating Activities</b>	<b>(8,133)</b>	<b>288,293</b>	<b>660,314</b>	<b>940,474</b>
<b>Total Change in Net Assets</b>	<b>(440,369)</b>	<b>364,986</b>	<b>660,314</b>	<b>(146,372)</b>
Net assets, beginning of year	7,793,833	400,661	52,431	8,246,925
<b>Net Assets, End of Year</b>	<b>\$ 7,353,464</b>	<b>\$ 765,647</b>	<b>\$ 712,745</b>	<b>\$ 8,831,856</b>

See accompanying notes.

# VILLAGE THEATRE

## Statement of Cash Flows For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

	2018	2017
<b>Operating Activities:</b>		
Change in net assets	\$ 584,931	\$ (146,372)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities-		
Depreciation	449,899	440,386
Amortization of loan fees	4,080	2,443
Contributions classified as financing activities	(916,967)	(92,665)
Gain on investments	(39,042)	(15,439)
Loss on sale of equipment		705
Cash (used) provided by changes in operating assets and liabilities:		
Reserved cash	(4,037)	(7,161)
Cash held for others	300	5,767
Accounts receivable	(4,956)	(4,787)
Pledges receivable	(198,951)	60,743
Grants receivable	(96,734)	(128,155)
Deferred production costs	(131,775)	(125,519)
Other assets	11,888	(57,041)
Accounts payable	(13,672)	7,991
Accrued wages and taxes	(200,728)	64,210
Deposits held in custody for others	(300)	(5,767)
Deferred revenue	(157,230)	30,567
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(713,294)</b>	<b>29,906</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(1,374,240)	(46,805)
Proceeds from sale of investments	772,883	
Cash held in escrow	(35,000)	
Purchase of property and equipment and other long-term assets	(221,930)	(161,257)
Proceeds from sales of property and equipment		2,500
<b>Net Cash Used in Investing Activities</b>	<b>(858,287)</b>	<b>(205,562)</b>
<b>Cash Flows From Financing Activities:</b>		
Principal payments on long-term debt	(95,886)	(125,709)
Capitalized loan fees		(6,594)
Proceeds from capital leases	20,089	
Proceeds from contributions restricted for long-term purposes	1,028,606	302,445
<b>Net Cash Provided by Financing Activities</b>	<b>952,809</b>	<b>170,142</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(618,772)</b>	<b>(5,514)</b>
Cash and cash equivalents, beginning of year	2,187,150	2,192,664
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,568,378</b>	<b>\$ 2,187,150</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 103,505	\$ 98,009
See accompanying notes.		

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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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, 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.

**Cash Held in Escrow** - At August 31, 2018, the Theatre was in the process of purchasing a 4 Plex apartment building (Note 6). As part of the pending purchase the Theatre was required to place \$35,000 in an escrow account.

**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, 2018 and 2017. See Note 3 for allowance for doubtful accounts for pledges receivable.



## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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#### Note 1 - Continued

**Investments** - Investments in mutual funds with readily determinable market values are recorded at fair value using Level 1 inputs (Note 5). 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 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 shorter of the asset's useful life or 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 \$105,000 and \$103,000 in unredeemed gift certificates at August 31, 2018 and 2017, respectively.

**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, 2018, 30% of the Theatre's pledges and grants receivable balance outstanding were from three donors/grantors. At August 31, 2018, 11% of the Theatre's contributed support was from one donor/grantor. At August 31, 2017, 30% of the Theatre's pledges receivable balance outstanding 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, 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:

	2018	2017
Donated catering, travel and printing	\$ 240,783	\$ 177,554
Donated materials	36,641	32,618
	<u>\$ 277,424</u>	<u>\$ 210,172</u>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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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, 2018 and 2017, was \$920,564 and \$848,119 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.

**Loan Fees** - Loan fees are recorded as a direct deduction to the related debt liability on the statement of financial position (Note 6).

**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 projects, capital and endowment 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, 2017, from which the summarized information was derived.

**Reclassification** - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications have no effect on the change in net assets or net asset balances, by classification, as previously reported.

**Subsequent Events** - The Theatre has evaluated subsequent events through November 13, 2018, 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 is \$10 million. As of August 31, 2018 and 2017, \$9,790,510 and \$9,819,752, respectively, had been pledged or given towards that goal, net of write offs. 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 to 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. As of August 31, 2018, and 2017, \$722,745 and \$62,431, respectively, had been pledged or given towards that goal.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

#### 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 3% and 2% for the years ended August 31, 2018 and 2017, 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:

	2018	2017
Receivables due in less than one year	\$ 475,905	\$ 360,862
Receivables due in two to five years	135,279	160,060
Less allowance for doubtful pledges	(25,500)	(25,500)
Less present value discount	(5,998)	(3,048)
<b>Total Pledges Receivable</b>	<b><u>\$ 579,686</u></b>	<b><u>\$ 492,374</u></b>

Reconciliation to amounts on the statement of financial position:

	2018	2017
Current pledges receivable	\$ 357,186	\$ 145,140
Long-term pledges and grants receivable	70,404	83,499
Pledges and grants restricted for long-term purposes	152,096	263,735
<b>Total Pledges Receivable</b>	<b><u>\$ 579,686</u></b>	<b><u>\$ 492,374</u></b>

#### Note 4 - Property and Equipment

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

	2018	2017
Land	\$ 1,848,762	\$ 1,848,762
Buildings and improvements	12,026,145	11,986,597
Theatre equipment	1,737,268	1,703,247
Office equipment, furniture and fixtures	1,147,597	1,074,872
Automobiles	6,922	6,922
Construction in progress	33,331	9,050
	16,800,025	16,629,450
Less accumulated depreciation	(6,615,835)	(6,217,291)
<b>Total Property and Equipment, Net</b>	<b><u>\$ 10,184,190</u></b>	<b><u>\$ 10,412,159</u></b>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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#### Note 5 - Investments and Fair Value Measurements

Investments are composed of mutual funds for the years ended August 31, 2018 and 2017.

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy under U.S. GAAP are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2018 and 2017.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Theatre are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Theatre are deemed to be actively traded.

The valuation methodologies used by the Theatre may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Theatre's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

#### Note 5 - Continued

**Fair Values Measured on a Recurring Basis** - Fair values of assets and liabilities measured on a recurring basis are as follows:

	Fair Value Measurements as of August 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds-				
Balanced	\$ 359,746	\$ -	\$ -	\$ 359,746
Growth	374,408			374,408
<b>Total Investments at Fair Value</b>	<b>\$ 734,154</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 734,154</b>

	Fair Value Measurements as of August 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds-				
Growth	\$ 93,755	\$ -	\$ -	\$ 93,755
<b>Total Investments at Fair Value</b>	<b>\$ 93,755</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 93,755</b>

#### Note 6 - 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 6.0% at August 31, 2018), 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, 2018 and 2017.

**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 an annual basis. The Theatre was in compliance with those covenants as of August 31, 2018.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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#### Note 6 - Continued

Future principal payments on the note payable are as follows:

For the Year Ending August 31,

2019	\$ 92,988
2020	98,020
2021	103,322
2022	<u>1,530,496</u>
	1,824,826
Less unamortized loan fees	<u>(6,018)</u>
	<u><u>\$ 1,818,808</u></u>

Long-term debt as presented on the statement of financial position is offset by net capitalized loan fees of \$6,018 and \$10,097 as of August 31, 2018 and 2017.

Subsequent to year end, on September 5, 2018, the Theatre entered into a note payable with Heritage Bank in the initial amount of \$1,045,000. The loan proceeds were used to purchase a 4 Plex apartment building that will be used for artist housing. The note is payable in monthly installments of \$5,666 including interest of 4.99%. The interest rate is fixed for the first five years and then is subject to an adjustment based on the Federal Home Loan Bank of Des Moines Amortizing Advance Rate (5 Year) plus 1.95%. The note is secured by a deed of trust on the apartment building. The note contains restrictive covenants which include, but are not limited to, the achievement of certain financial ratios on an annual basis.

Future principal payments on the artist housing note payable are as follows:

For the Year Ending August 31,

2019	\$ 14,283
2020	15,948
2021	16,918
2022	17,794
2023	18,716
Thereafter	<u>961,341</u>
	<u><u>\$ 1,045,000</u></u>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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#### Note 7 - Fund-Raising Events

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

	Gala and Auction	Sing It Forward	2018 Total	2017 Total
Gross revenues	\$ 638,432	\$ 248,748	\$ 887,180	\$ 708,367
Event expenses	<u>(116,678)</u>	<u>(27,269)</u>	<u>(143,947)</u>	<u>(148,657)</u>
<b>Excess of Fund-Raising Revenues Over Expenses</b>	<b><u>\$ 521,754</u></b>	<b><u>\$ 221,479</u></b>	<b><u>\$ 743,233</u></b>	<b><u>\$ 559,710</u></b>

The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2018 or 2017, and the revenues represent the unrestricted revenues recorded in the current year and the release of temporarily restricted revenues recorded in the prior year associated with the event.

#### Note 8 - 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 (\$306,286 for the year ended August 31, 2018). The City has agreed to pay the service fees to the Theatre in monthly installments through August 2018. In April of 2018, the Theatre signed an amendment to the agreement with the City of Everett that extends the contract to August 2019.

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 9 - Commitments and Contingencies

**Operating Leases** - The Theatre has several operating leases for office space and equipment, storage and a parking lot, which expire through 2023, or are on a month-to-month basis. Total rental expense for the years ended August 31, 2018 and 2017, was \$250,284 and \$234,563, respectively.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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#### Note 9 - Continued

At August 31, 2018, future minimum rental payments under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2019	\$ 70,467
2020	55,467
2021	27,596
2022	<u>882</u>
	<u><u>\$ 154,412</u></u>

**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, 2018 and 2017, was \$224,688 and \$207,523, respectively.

At August 31, 2018, future minimum rental receipts for the next five years under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2019	\$ 162,698
2020	165,767
2021	171,457
2022	112,320
2023	81,227
Thereafter	<u>594,970</u>
	<u><u>\$ 1,288,439</u></u>

**Capital Leases** - The Theatre entered into a lease agreement in April 2018 for firewall servers under a three-year capital lease agreement. The capitalized cost totaled \$22,776 and accumulated depreciation of \$3,093 on the capital lease asset is included in office equipment, furniture and fixtures on the statement of financial position as of August 31, 2018 (Note 4).

At August 31, 2018, future minimum lease payments for the next five years under the capital lease are as follows:

For the Year Ending August 31,

2019	\$ 7,776
2020	7,776
2021	<u>4,536</u>
	<u><u>\$ 20,088</u></u>



## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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#### Note 9 - 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, 2018 and 2017, employer contributions of \$56,757 and \$52,424, respectively, were contributed to the Plan.

**Performer Contracts** - The Theatre has entered into noncancelable contracts with performers for productions through May 2019. Future payments committed under these contracts, which are contingent on services being provided by the performers, amount to \$54,000 and \$57,640 at August 31, 2018 and 2017, respectively.

**Labor Contracts** - The Theatre signed a four-year agreement with the Actors' Equity Association, effective August 7, 2018, which specifically details wage and benefit rates and other requirements. Under the 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 \$155,233 and \$151,196 at August 31, 2018 and 2017, respectively, for the 2018/2019 and 2017/2018 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 27, 2018. 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 22, 2021.

At August 31, 2018, 44 percent of the Theatre's total labor force is covered by the collective bargaining agreements described above, including 3 percent of the labor force operating under the American Federation of Musicians Local 76-493 agreement, which expires within the next year.

#### Note 10 - 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:

	2018	2017
Production and program	\$ 11,660,470	\$ 11,095,976
General and administrative	1,032,342	924,191
Fundraising	1,047,571	908,199
	<u>\$ 13,740,383</u>	<u>\$ 12,928,366</u>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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#### Note 11 - Related Party

During the year ended August 31, 2018, the Theatre's board president served as the Senior Vice President of a local bank with which the Theatre has a deposit and subsequent to year end, a loan relationship (Note 6).

#### Note 12 - Temporarily Restricted Net Assets

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

	2018	2017
Operations and productions	\$ 179,000	\$ 122,834
Capital projects	250,000	
Restricted for use in future periods	267,500	246,973
Accumulated unspent earnings on endowment	69,147	30,854
	<u>\$ 765,647</u>	<u>\$ 400,661</u>

#### Note 13 - Permanently Restricted Net Assets

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

	2018	2017
General endowment	\$ 641,350	\$ 41,036
Youth education endowment	2,500	2,500
Village Originals endowment	8,895	8,895
Total endowments (Note 14)	652,745	52,431
Receivable for endowment	60,000	
	<u>\$ 712,745</u>	<u>\$ 52,431</u>

#### Note 14 - 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.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

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#### Note 14 - Continued

**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 Theatre 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, 2018 and 2017.

**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.

**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. No distributions were made during the fiscal year ending August 31, 2018 and 2017.

# VILLAGE THEATRE

## Notes to Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

### Note 14 - Continued

Changes to endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2016	\$ -	\$ 15,080	\$ 16,431	\$ 31,511
Endowment investment return- Interest and dividends		805		805
Unrealized gain (net of fees)	470	14,969		15,439
Board designations	10,000			10,000
Contributions			36,000	36,000
<b>Endowment Net Assets, August 31, 2017</b>	<b>10,470</b>	<b>30,854</b>	<b>52,431</b>	<b>93,755</b>
Endowment investment return- Interest and dividends	92	934		1,026
Realized gain	662	5,240		5,902
Unrealized gain (net of fees)	1,039	32,119		33,158
Contributions			600,314	600,314
<b>Endowment Net Assets, August 31, 2018</b>	<b>\$ 12,263</b>	<b>\$ 69,147</b>	<b>\$ 652,745</b>	<b>\$ 734,155</b>

Separate funds within the endowment are comprised of the following at August 31, 2018:

	Corpus	Accumulated Unspent Earnings	Total
General endowment	\$ 641,350	\$ 50,959	\$ 692,309
Youth education endowment	2,500	4,711	7,211
Village Originals endowment	8,895	13,477	22,372
Board designated endowment	10,000	2,263	12,263
	<b>\$ 662,745</b>	<b>\$ 71,410</b>	<b>\$ 734,155</b>

## **SUPPLEMENTARY INFORMATION**

# VILLAGE THEATRE

## Schedule of Functional Expenses For the Year Ended August 31, 2018 (With Comparative Totals for 2017)

	Production and Program	General and Administrative	Fundraising	2018 Total	2017 Total
Salaries and employee benefits	\$ 7,512,774	\$ 564,103	\$ 664,411	\$ 8,741,288	\$ 8,138,071
Advertising and public relations	869,216	2,953	48,395	920,564	848,119
Rights and royalties	724,600		526	725,126	629,062
Travel, meals and accommodations	295,296	17,731	107,133	420,160	386,325
Box office and front of house	412,972			412,972	390,119
Facility rental and maintenance	338,075	50,695	4,548	393,318	393,730
Sets and costumes	389,964	200	150	390,314	463,417
Charge card discounts	198,155	228	12,985	211,368	213,136
Supplies	155,669	21,432	4,732	181,833	172,438
Event catering and supplies			148,068	148,068	145,953
Utilities	129,562	11,501	2,859	143,922	142,889
Data processing and IT	26,024	101,522	7,149	134,695	89,792
Interest and loan fees	17,381	114,475		131,856	111,627
Scholarships	84,011			84,011	86,190
Insurance	47,963	7,804	1,586	57,353	58,620
Training and dues	18,279	31,248	4,060	53,587	82,595
Professional fees		37,762	75	37,837	37,848
Miscellaneous	29,271	1,762		31,033	32,139
Telephone	18,097	1,833	830	20,760	20,807
Postage	10,728	1,814	2,258	14,800	15,833
Government taxes and fees	259	6,555		6,814	7,861
Change in estimate of allowance for doubtful accounts			4,438	4,438	15,203
Printing	1,579	447	2,162	4,188	3,286
Equipment rental	2,188	197	39	2,424	1,967
<b>Total Expenses Before Depreciation and Capital Campaign Expenses</b>	<b>11,282,063</b>	<b>974,262</b>	<b>1,016,404</b>	<b>13,272,729</b>	<b>12,487,027</b>
Depreciation	378,407	58,075	13,417	449,899	440,386
Capital campaign expenses		5	17,750	17,755	953
<b>Total Functional Expenses</b>	<b>\$ 11,660,470</b>	<b>\$ 1,032,342</b>	<b>\$ 1,047,571</b>	<b>\$ 13,740,383</b>	<b>\$ 12,928,366</b>

See independent auditor's report.