

VILLAGE THEATRE

Financial Statements

For the Year Ended August 31, 2019

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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, 2019, and the related statements of activities and changes in net assets, functional expenses 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, 2019, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Theatre adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended August 31, 2019. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Theatre's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clark Nuber PS

Certified Public Accountants
November 12, 2019

VILLAGE THEATRE

Statement of Financial Position

August 31, 2019

(With Comparative Totals for 2018)

	2019	2018
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,920,306	\$ 1,568,378
Reserved cash (Note 9)	156,242	155,233
Cash held in escrow (Note 1)		35,000
Cash held for others	3,732	280
Accounts receivable	21,239	47,793
Pledges receivable, net (Note 3)	158,746	357,186
Grants receivable	329,150	492,529
Deferred production costs	1,073,581	1,192,256
Other current assets	103,856	125,365
Total Current Assets	3,766,852	3,974,020
Endowment investments (Note 5)	984,893	734,154
Long-term pledges and grants receivable (Note 3)	73,508	70,404
Pledges and grants restricted for long-term purposes (Note 3)	492,776	152,096
Property and equipment, net of accumulated depreciation (Note 4)	11,254,521	10,184,190
Other long-term assets	15,000	15,000
Total Assets	\$ 16,587,550	\$ 15,129,864
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 178,842	\$ 170,429
Accrued wages and taxes	111,227	115,662
Deposits held in custody for others	3,732	280
Deferred revenue	4,440,808	4,172,740
Current portion of capital lease (Note 9)	7,776	7,776
Current portion of long-term debt (Note 6)	113,968	92,988
Total Current Liabilities	4,856,353	4,559,875
Long-term capital lease, less current portion (Note 9)	4,490	12,313
Long-term debt, less current portion (Note 6)	2,636,888	1,725,820
Total Liabilities	7,497,731	6,298,008
Net Assets:		
Without donor restrictions	7,360,823	7,353,464
With donor restrictions (Note 11)	1,728,996	1,478,392
Total Net Assets	9,089,819	8,831,856
Total Liabilities and Net Assets	\$ 16,587,550	\$ 15,129,864

See accompanying notes.

VILLAGE THEATRE

Statement of Activities and Changes in Net Assets For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

	2019			
	Without Donor Restrictions	With Donor Restrictions	Total	2018 Total
Operating Revenue and Support:				
Revenue-				
Ticket sales	\$ 7,783,581	\$ -	\$ 7,783,581	\$ 7,775,708
Tuition	1,104,474		1,104,474	1,027,851
Leases and other income	762,890		762,890	779,448
Management fees (Note 8)	306,300		306,300	306,286
Interest income	3,828		3,828	2,958
Total revenue	9,961,073		9,961,073	9,892,251
Support-				
Corporate sponsorships and contributions	262,635	113,000	375,635	378,317
Patron contributions	1,083,790	35,737	1,119,527	1,432,488
Foundation support	155,592	25,000	180,592	231,868
Government grants	173,500	46,200	219,700	172,000
Fundraising events, gross (Note 7)	1,011,037	23,500	1,034,537	885,680
ArtsFund	75,480		75,480	97,057
In-kind	227,642	28,500	256,142	277,424
Release of restrictions	376,095	(376,095)		
Total support	3,365,771	(104,158)	3,261,613	3,474,834
Total Operating Revenue and Support	13,326,844	(104,158)	13,222,686	13,367,085
Expenses:				
Production and program	11,200,739		11,200,739	11,282,063
General and administrative	947,303		947,303	974,262
Fundraising	1,014,370		1,014,370	1,016,404
Total Expenses	13,162,412		13,162,412	13,272,729
Change in Net Assets From Operating Activities				
Before Depreciation	164,432	(104,158)	60,274	94,356
Depreciation	(475,980)		(475,980)	(449,899)
Change in Net Assets From Operating Activities	(311,548)	(104,158)	(415,706)	(355,543)
Nonoperating Activities:				
Corporate capital contributions	3,000		3,000	1,500
Patron capital contributions	28,897		28,897	255,153
Government grants	35,000	25,000	60,000	
Interest income	652		652	1,177
Change in estimate of allowance for doubtful accounts				(17,750)
In-kind	1,800		1,800	
Capital campaign expense	(482)		(482)	(5)
Release of restrictions	250,000	(250,000)		
Total Nonoperating Activities	318,867	(225,000)	93,867	240,075
Endowment Campaign:				
Corporate contributions		9,989	9,989	15,000
Patron contributions		549,091	549,091	645,314
Interest and dividend income		7,619	7,619	934
Gains on investments	40	13,063	13,103	39,151
Total Endowment Campaign	40	579,762	579,802	700,399
Total Change in Net Assets From Nonoperating Activities	318,907	354,762	673,669	940,474
Total Change in Net Assets	7,359	250,604	257,963	584,931
Net assets, beginning of year	7,353,464	1,478,392	8,831,856	8,246,925
Net Assets, End of Year	\$ 7,360,823	\$ 1,728,996	\$ 9,089,819	\$ 8,831,856

See accompanying notes.

VILLAGE THEATRE

Statement of Functional Expenses For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

	Production and Program	General and Administrative	Fundraising	2019 Total	2018 Total
Salaries and employee benefits	\$ 7,442,704	\$ 579,868	\$ 665,771	\$ 8,688,343	\$ 8,741,288
Advertising	832,977	4,467	50,791	888,235	920,564
Rights and royalties	750,813		828	751,641	725,126
Travel, meals and accommodations	248,711	8,428	104,286	361,425	420,160
Box office and front of house	383,608			383,608	412,972
Facility rental and maintenance	366,059	38,458	2,930	407,447	393,318
Sets and costumes	369,389			369,389	390,314
Charge card fees	216,287	40	16,332	232,659	211,368
Supplies	146,445	14,042	4,188	164,675	181,833
Event catering and supplies	2,615	1,995	140,193	144,803	148,068
Utilities	120,616	9,851	2,728	133,195	143,922
Data processing and IT	34,354	74,400	10,858	119,612	134,695
Interest and loan fees	58,971	124,189		183,160	131,856
Scholarships	86,280			86,280	84,011
Insurance	61,362	10,996	1,839	74,197	57,353
Training and dues	15,148	31,683	3,672	50,503	53,587
Professional fees		35,295	701	35,996	37,837
Miscellaneous	26,305	2,327		28,632	31,033
Telephone	14,008	1,746	344	16,098	20,760
Postage	12,195	1,694	1,749	15,638	14,800
Government taxes and fees	7,337	7,018		14,355	6,814
Change in estimate of allowance for doubtful accounts		60	6,863	6,923	4,438
Printing	2,679	625	259	3,563	4,188
Equipment rental	1,876	121	38	2,035	2,424
Total Expenses Before Depreciation and Capital Campaign Expenses	11,200,739	947,303	1,014,370	13,162,412	13,272,729
Depreciation	401,029	59,859	15,092	475,980	449,899
Capital campaign expenses			482	482	17,755
2019 Total Functional Expenses	\$ 11,601,768	\$ 1,007,162	\$ 1,029,944	\$ 13,638,874	\$ 13,740,383
2018 Total Functional Expenses	\$ 11,660,470	\$ 1,032,342	\$ 1,047,571	\$ -	\$ 13,740,383

See accompanying notes.

VILLAGE THEATRE

Statement of Cash Flows For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

	2019	2018
Operating Activities:		
Change in net assets	\$ 257,963	\$ 584,931
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities-		
Depreciation	475,980	449,899
Amortization of loan fees	4,332	4,080
Contributions classified as financing activities	(590,977)	(916,967)
Gain on investments	(13,103)	(39,151)
Cash provided (used) by changes in operating assets and liabilities:		
Reserved cash	(1,009)	(4,037)
Cash held for others	(3,452)	300
Accounts receivable	26,554	(4,956)
Pledges receivable	195,336	(198,951)
Grants receivable	163,379	(96,734)
Deferred production costs	118,675	(131,775)
Other assets	21,509	11,888
Accounts payable	8,413	(13,672)
Accrued wages and taxes	(4,435)	(200,728)
Deposits held in custody for others	3,452	(300)
Deferred revenue	268,068	(157,230)
Net Cash Provided by (Used in) Operating Activities	930,685	(713,403)
Cash Flows From Investing Activities:		
Purchase of investments	(528,120)	(1,374,240)
Proceeds from sale of investments	290,484	772,992
Cash held in escrow	35,000	(35,000)
Purchase of property and equipment and other long-term assets	(1,546,311)	(221,930)
Net Cash Used in Investing Activities	(1,748,947)	(858,178)
Cash Flows From Financing Activities:		
Proceeds from long-term debt	1,045,000	
Principal payments on long-term debt	(106,149)	(95,886)
Capitalized loan fees	(11,135)	
Proceeds from capital leases		20,089
Payments on capital leases	(7,823)	
Proceeds from contributions restricted for long-term purposes	250,297	1,028,606
Net Cash Provided by Financing Activities	1,170,190	952,809
Net Change in Cash and Cash Equivalents	351,928	(618,772)
Cash and cash equivalents, beginning of year	1,568,378	2,187,150
Cash and Cash Equivalents, End of Year	\$ 1,920,306	\$ 1,568,378
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 164,406	\$ 103,505

See accompanying notes.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. The Theatre's net assets without donor restrictions result from transactions for services and programs sponsored by the Theatre and receipt of grants and gifts without donor restrictions. It is the Theatre's policy to record contributions received and expended in the same accounting period in the net assets without donor restrictions class category.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by actions of the Theatre and/or the passage of time, and net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Theatre.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor 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. These costs have been summarized on a functional basis in the statement of functional expenses. Costs are directly charged to the functions they benefit. Salaries are charged to functions directly based on time incurred. Facility expenses are allocated to each function based on square footage utilized by the function.

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 four-Plex apartment building. As part of the pending purchase the Theatre was required to place \$35,000 in an escrow account. As of August 31, 2019, the apartment building had been purchased and the cash was no longer required to be held in escrow.

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, 2019 and 2018. See Note 3 for allowance for doubtful accounts for pledges receivable.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 1 - Continued

Investments - Investments in mutual funds and money market 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 \$101,000 and \$105,000 in unredeemed gift certificates at August 31, 2019 and 2018, 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, 2019, 37% of the Theatre's pledges and grants receivable balance outstanding were from one donor/ grantor. At August 31, 2019, 13% of the Theatre's contributed support was from one donor/grantor. At August 31, 2018, 30% of the Theatre's pledges receivable balance outstanding was from three donors/grantors. For the year ended August 31, 2018, 11% of the Theatre's contributed support was from one donor/grantor.

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 and 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:

	2019	2018
Donated catering, travel and printing	\$ 242,367	\$ 240,783
Donated materials	15,575	36,641
	<u>\$ 257,942</u>	<u>\$ 277,424</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 1 - Continued

Advertising - The Theatre's advertising expense represents all marketing costs including, but not limited to printing, direct mail, paid media, and photography. Costs related to the following year's season are recorded as prepaid production costs and are recognized as expense in the year the season occurs. At August 31, 2019 and 2018, prepaid advertising costs were \$236,497 and \$136,245, respectively. Total advertising expense for the years ended August 31, 2019 and 2018, was \$888,235 and \$920,564 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, 2018, from which the summarized information was derived.

Adoption of New Accounting Pronouncement - For the year ended August 31, 2019, the Theatre adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return amongst not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Subsequent Events - The Theatre has evaluated subsequent events through November 12, 2019, the date on which the financial statements were available to be issued.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 2 - Capital and Endowment Fund Campaign

Beginning in the year ended August 31, 2005, the Theatre began a capital campaign. The campaign goal is \$10 million. As of August 31, 2019 and 2018, \$9,806,510 and \$9,790,510, 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, 2019, and 2018, \$1,404,893 and \$722,745, 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 2% and 3% for the years ended August 31, 2019 and 2018, 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:

	2019	2018
Receivables due in less than one year	\$ 389,796	\$ 475,905
Receivables due in one to five years	376,667	135,279
Less allowance for doubtful pledges	(27,500)	(25,500)
Less present value discount	(13,933)	(5,998)
Total Pledges Receivable	\$ 725,030	\$ 579,686

Reconciliation to amounts on the statement of financial position:

	2019	2018
Current pledges receivable	\$ 158,746	\$ 357,186
Long-term pledges and grants receivable	73,508	70,404
Pledges and grants restricted for long-term purposes	492,776	152,096
Total Pledges Receivable	\$ 725,030	\$ 579,686

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Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 4 - Property and Equipment

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

	2019	2018
Land	\$ 2,216,626	\$ 1,848,762
Buildings and improvements	13,030,335	12,026,145
Theatre equipment	1,827,738	1,737,268
Office equipment, furniture and fixtures	1,224,832	1,147,597
Automobiles	6,922	6,922
Construction in progress	32,963	33,331
	18,339,416	16,800,025
Less accumulated depreciation	(7,084,895)	(6,615,835)
Total Property and Equipment, Net	\$ 11,254,521	\$ 10,184,190

Note 5 - Investments and Fair Value Measurements

The Theatre has the following investments as of August 31:

	2019	2018
Money market funds	\$ 1,022	\$ -
Mutual funds-		
Balanced	494,276	359,746
Growth	489,595	374,408
Total Investments at Fair Value	\$ 984,893	\$ 734,154

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.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 5 - Continued

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, 2019 and 2018.

Money Market Funds - Valued at cost plus accrued interest, which approximates fair value.

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 and are valued using level 1 inputs.

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.

Note 6 - Line of Credit and Notes Payable

Line of Credit - The Theatre had a line of credit agreement with a bank for \$950,000. 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%, and the line was secured by a deed of trust on the Technical Studio. The line of credit agreement was extended in July 2019 and the principal amount was increased to \$1,500,000. The line of credit agreement now matures in July 2024. The interest rate for all borrowed amounts against the new line of credit is a variable rate of prime with a floor of 5.5% (interest rate was 5.5% at August 31, 2019). All other terms and conditions of the agreement remained the same. The Theatre did not have an outstanding balance at August 31, 2019 and 2018.

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Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 6 - Continued

Notes Payable - The Theatre has the following notes payables as of August 31:

	<u>2019</u>	<u>2018</u>
Note payable to Opus Bank in the initial amount of \$2,845,000; bears interest at the five-year Constant Maturity Treasury rate plus 3.5% (5.28% at August 31, 2019); monthly payments of principal and interest of \$15,623; secured by a deed of trust on the Theatre building; matures in June 2022.	\$ 1,732,807	\$ 1,824,825
Note payable to Heritage Bank in the initial amount of \$1,045,000; bears interest at a fixed rate for the first five years then subject to an adjustment based on the Federal Home Loan Bank of Des Moines Amortizing Advance Rate (5 Year) plus 1.95% (4.99% at August 31, 2019); monthly payments of principal and interest of \$5,666; secured by a deed of trust on the apartment building; matures in September 2028.	<u>1,030,869</u>	
Total notes payable	2,763,676	1,824,825
Less unamortized loan fees	(12,820)	(6,017)
Less current portion	<u>(113,968)</u>	<u>(92,988)</u>
Long-Term Portion of Notes Payable	<u>\$ 2,636,888</u>	<u>\$ 1,725,820</u>

The Theatre is subject to certain restrictive covenants under the notes payable and was in compliance with those covenants as of August 31, 2019 and 2018.

Future principal payments on the notes payable are as follows:

For the Year Ending August 31,

2020	\$ 113,968
2021	120,601
2022	1,548,898
2023	18,716
2024	19,550
Due thereafter	<u>941,943</u>
	2,763,676
Less unamortized loan fees	<u>(12,820)</u>
	<u>\$ 2,750,856</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

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	2019 Total	2018 Total
Gross revenues	\$ 739,249	\$ 275,288	\$ 1,014,537	\$ 887,180
Event expenses	(169,639)	(29,986)	(199,625)	(143,947)
Excess of Fund-Raising Revenues Over Expenses	\$ 569,610	\$ 245,302	\$ 814,912	\$ 743,233

The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2019 or 2018, and the revenues represent the revenues without donor restrictions recorded in the current year and the release of revenues with donor restrictions 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 (\$306,300 for the year ended August 31, 2019). Effective September 2019, the Theatre renewed the agreement with the City that extends the contract to December 2025. The new contract allows the Theatre to retain third-party rental income and facility fees with a management fee that is reduced to \$12,500 per month for the first 16 months, and inflation adjusted amounts for the remainder of the contract.

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, 2019 and 2018, was \$177,556 and \$250,284, respectively.

At August 31, 2019, future minimum rental payments under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2020	\$ 75,176
2021	47,651
2022	21,282
2023	221
	<u>\$ 144,330</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 9 - Continued

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, 2019 and 2018, was \$225,012 and \$224,688, respectively.

At August 31, 2019, future minimum rental receipts for the next five years under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2020	\$ 178,138
2021	186,159
2022	127,022
2023	81,227
2024	81,227
Thereafter	<u>598,277</u>
	<u><u>\$ 1,252,050</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 \$10,510 on the capital lease asset is included in office equipment, furniture and fixtures on the statement of financial position as of August 31, 2019 (Note 4).

At August 31, 2019, future minimum lease payments under the capital lease are as follows:

For the Year Ending August 31,

2020	\$ 7,776
2021	<u>4,490</u>
	<u><u>\$ 12,266</u></u>

Pension Plan - The Theatre maintains an employee self-directed retirement plan (the Plan) under Internal Revenue Code Section 403(b) which covers employees who meet certain eligibility requirements. The Theatre matches 50% of employee contributions up to 3% of the employees' base salary. During the years ended August 31, 2019 and 2018, employer contributions of \$56,684 and \$56,757, respectively, were contributed to the Plan.

Performer Contracts - The Theatre has entered into noncancelable contracts with performers for productions through June 2020. Future payments committed under these contracts, which are contingent on services being provided by the performers, amount to \$71,950 and \$54,000 at August 31, 2019 and 2018, respectively.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 9 - Continued

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 \$156,242 and \$155,233 at August 31, 2019 and 2018, respectively, for the 2019/2020 and 2018/2019 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 effective August 15, 2019 through August 14, 2022. Under the new agreement the Theatre's pension contribution will increase to 9.72%.

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, 2019, approximately 35 percent of the Theatre's total labor force is covered by the collective bargaining agreements described above.

Note 10 - Related Party

During the year ended August 31, 2019, the Theatre's board president served as the Senior Vice President of a local bank with which the Theatre has a deposit and a loan relationship (Note 6).

Note 11 - Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at August 31:

	2019	2018
Subject to the passage of time or expenditure for specified purposes-		
Operations and productions	\$ 231,200	\$ 179,000
Capital projects		250,000
Restricted for use in future periods	136,141	267,500
Accumulated unspent earnings on endowment	89,829	69,147
Endowment funds-		
General endowment	771,367	641,350
Youth education endowment	102,500	2,500
Village Originals endowment	8,895	8,895
Pledges receivable for endowment	389,064	60,000
	<u>\$ 1,728,996</u>	<u>\$ 1,478,392</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 12 - Endowment

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

Interpretation of Relevant Law - The Board of Directors of the Theatre has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the endowment funds with donor restrictions, absent explicit donor stipulations to the contrary. As a result of this determination, the Theatre classifies as net assets restricted in perpetuity (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 is classified as net assets with donor restrictions 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 net assets without donor restrictions. There were no deficiencies of this nature as of August 31, 2019 and 2018.

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

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

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 12 - Continued

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The Theatre has a policy of appropriating for distribution each year a maximum of 5% of its endowment fund's total fair value over the prior 3 years rolling average. This is consistent with the Theatre's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. No distributions were made during the fiscal years ended August 31, 2019 and 2018.

Changes to endowment, excluding outstanding pledges, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment funds, September 1, 2017	\$ 10,470	\$ 83,285	\$ 93,755
Endowment investment return-			
Interest and dividends	92	934	1,026
Realized gain	662	5,240	
Unrealized gain (net of fees)	1,039	32,119	33,158
Contributions and collections on pledges		600,314	600,314
Endowment Funds, August 31, 2018	12,263	721,892	734,155
Endowment investment return-			
Interest and dividends	115	5,953	6,068
Realized gain	771	47,156	47,927
Unrealized loss (net of fees)	(847)	(32,426)	(33,273)
Contributions and collections on pledges		230,016	230,016
Endowment Funds, August 31, 2019	\$ 12,302	\$ 972,591	\$ 984,893

Separate funds within the endowment are comprised of the following at August 31, 2019:

	Corpus	Accumulated Unspent Earnings	Total
General endowment	\$ 771,367	\$ 55,781	\$ 827,148
Youth education endowment	102,500	20,496	122,996
Village Originals endowment	8,895	13,551	22,446
Board designated endowment	10,000	2,303	12,303
	\$ 892,762	\$ 92,131	\$ 984,893

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2019 (With Comparative Totals for 2018)

Note 13 - Liquidity and Availability of Financial Assets

The Theatre's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for prepaid subscription revenue in the fourth quarter of the fiscal year in advance of the next year and a concentration of contributions received near calendar year end and fiscal year end. Monthly cash outflows vary each year based on the specific requirements of the productions programmed that season. To manage liquidity, the Theatre maintains a line of credit of \$1.5 million with a bank that is drawn upon as needed during the year to manage cash flow. See Note 6 for further description of this line.

The following reflects the Theatre's financial assets as of the date of the statement of financial position, reduced by amounts not available for general use within one year of the date of the statement of financial position because of contractual or donor-imposed restrictions or internal designations.

Cash and cash equivalents	\$ 1,920,306
Accounts receivable, net, collected in less than one year	21,239
Pledges receivable, net, collected in less than one year	158,746
Grants receivable, net, collected in less than one year	329,150
Investments	<u>984,893</u>
Total financial assets, excluding noncurrent receivables and restricted cash	3,414,334
Contractual or donor-imposed restrictions-	
Endowment fund investments	(984,893)
Other donor restrictions	<u>(66,500)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 2,362,941</u>