

**VILLAGE THEATRE**

Financial Statements

For the Year Ended August 31, 2020

## Table of Contents

---

	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 21

## **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, 2020, 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.



T: 425-454-4919  
T: 800-504-8747  
F: 425-454-4620

10900 NE 4th St  
Suite 1400  
Bellevue WA  
98004

[clarknuber.com](http://clarknuber.com)

## **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, 2020, 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") 2014-09, *Revenue from Contracts with Customers (Topic 606)* and related ASUs 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Clark Nuber PS*

Certified Public Accountants  
November 10, 2020

# VILLAGE THEATRE

## Statement of Financial Position August 31, 2020 (With Comparative Totals for 2019)

	2020	2019 (As Restated)
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,727,576	\$ 1,920,306
Reserved cash (Note 9)		156,242
Cash held for others	14,498	3,732
Board designated cash reserves	3,003,889	
Accounts receivable	106,034	21,239
Pledges receivable, net (Note 3)	182,485	158,746
Grants receivable	308,249	329,150
Deferred production costs	221,284	766,772
Other current assets	76,147	103,856
<b>Total Current Assets</b>	<b>5,640,162</b>	<b>3,460,043</b>
Endowment investments (Note 5)	1,500,610	984,893
Long-term pledges and grants receivable (Note 3)	34,033	73,508
Pledges and grants restricted for long-term purposes (Note 3)	530,706	492,776
Property and equipment, net of accumulated depreciation (Note 4)	10,940,762	11,254,521
Other long-term assets	15,000	15,000
<b>Total Assets</b>	<b>\$ 18,661,273</b>	<b>\$ 16,280,741</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 40,999	\$ 178,842
Accrued wages and taxes	175,710	111,227
Deposits held in custody for others	14,498	3,732
Deferred revenue	3,284,577	4,440,808
Current portion of capital lease (Note 9)	4,537	7,776
Current portion of long-term debt (Note 6)	357,156	113,968
<b>Total Current Liabilities</b>	<b>3,877,477</b>	<b>4,856,353</b>
Long-term capital lease, less current portion (Note 9)		4,490
Long-term debt, less current portion (Note 6)	3,113,144	2,636,888
<b>Total Liabilities</b>	<b>6,990,621</b>	<b>7,497,731</b>
<b>Net Assets:</b>		
Without donor restrictions	9,486,493	7,054,014
With donor restrictions (Note 11)	2,184,159	1,728,996
<b>Total Net Assets</b>	<b>11,670,652</b>	<b>8,783,010</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 18,661,273</b>	<b>\$ 16,280,741</b>

See accompanying notes.

## VILLAGE THEATRE

### Statement of Activities and Changes in Net Assets For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

	2020			2019 Total (As Restated)
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Operating Revenue and Support:</b>				
Revenue-				
Ticket sales	\$ 3,892,142	\$ -	\$ 3,892,142	\$ 7,783,581
Tuition	871,316		871,316	1,104,474
Leases and other income	634,446		634,446	762,890
Management fees (Note 8)	150,000		150,000	306,300
Interest income	967		967	3,828
Endowment earnings appropriated for expenditure	32,933		32,933	
Total revenue	5,581,804		5,581,804	9,961,073
Support-				
Corporate sponsorships and contributions	300,557	115,000	415,557	375,635
Patron contributions	1,362,959	52,486	1,415,445	1,119,527
Foundation support	351,622	4,500	356,122	180,592
Government grants	242,865	3,000	245,865	219,700
Fundraising events, gross (Note 7)	645,011	5,000	650,011	1,034,537
ArtsFund	150,680		150,680	75,480
In-kind	104,318		104,318	256,142
Ticket donations due to COVID-19, net of allowance	1,190,379		1,190,379	
Release of restrictions	268,833	(268,833)		
Total support	4,617,224	(88,847)	4,528,377	3,261,613
<b>Total Operating Revenue and Support</b>	<b>10,199,028</b>	<b>(88,847)</b>	<b>10,110,181</b>	<b>13,222,686</b>
<b>Expenses:</b>				
Production and program	8,507,520		8,507,520	11,206,758
General and administrative	996,925		996,925	947,303
Fundraising	875,966		875,966	1,014,370
<b>Total Expenses</b>	<b>10,380,411</b>		<b>10,380,411</b>	<b>13,168,431</b>
<b>Change in Net Assets From Operating Activities Before Depreciation</b>	<b>(181,383)</b>	<b>(88,847)</b>	<b>(270,230)</b>	<b>54,255</b>
Depreciation	(470,922)		(470,922)	(475,980)
<b>Change in Net Assets From Operating Activities</b>	<b>(652,305)</b>	<b>(88,847)</b>	<b>(741,152)</b>	<b>(421,725)</b>
<b>Nonoperating Activities:</b>				
Contributions designated by the board	3,003,889		3,003,889	
Corporate capital contributions	2,000		2,000	3,000
Patron capital contributions	2,005		2,005	28,897
Government grants				60,000
Interest income	523		523	652
In-kind				1,800
Nonoperating expense	(916)		(916)	(482)
Release of restrictions	10,000	(10,000)		
<b>Total Nonoperating Activities</b>	<b>13,612</b>	<b>(10,000)</b>	<b>3,007,501</b>	<b>93,867</b>
<b>Endowment Campaign:</b>				
Corporate contributions		7,500	7,500	9,989
Patron contributions	53,000	198,870	251,870	549,091
Endowment earnings appropriated for expenditure	(392)	(32,541)	(32,933)	
Investment return	14,675	380,181	394,856	20,722
<b>Total Endowment Campaign</b>	<b>67,283</b>	<b>554,010</b>	<b>621,293</b>	<b>579,802</b>
<b>Total Change in Net Assets From Nonoperating Activities</b>	<b>3,084,784</b>	<b>544,010</b>	<b>3,628,794</b>	<b>673,669</b>
<b>Total Change in Net Assets</b>	<b>2,432,479</b>	<b>455,163</b>	<b>2,887,642</b>	<b>251,944</b>
Net assets, beginning of year (as restated)	7,054,014	1,728,996	8,783,010	8,531,066
<b>Net Assets, End of Year</b>	<b>\$ 9,486,493</b>	<b>\$ 2,184,159</b>	<b>\$ 11,670,652</b>	<b>\$ 8,783,010</b>

See accompanying notes.

# VILLAGE THEATRE

## Statement of Functional Expenses For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

	Production and Program	General and Administrative	Fundraising	2020 Total	2019 Total
Salaries and employee benefits	\$ 6,074,085	\$ 616,918	\$ 702,855	\$ 7,393,858	\$ 8,688,343
Advertising	493,158	13,091	25,288	531,537	894,254
Rights and royalties	408,920		247	409,167	751,641
Travel, meals and accommodations	96,835	5,825	60,051	162,711	361,425
Box office and front of house	292,933			292,933	383,608
Facility rental and maintenance	251,258	35,018	2,054	288,330	407,447
Sets and costumes	274,570			274,570	369,389
Charge card fees	158,537	24	8,613	167,174	232,659
Supplies	96,213	11,533	2,204	109,950	164,675
Event catering and supplies	6,189	263	46,213	52,665	144,803
Utilities	97,330	8,292	2,248	107,870	133,195
Data processing and IT	32,954	90,777	8,919	132,650	119,612
Interest and loan fees	48,963	116,331	1,605	166,899	183,160
Scholarships	62,125			62,125	86,280
Insurance	61,292	11,269	1,941	74,502	74,197
Training and dues	10,109	34,829	3,544	48,482	50,503
Professional fees		37,889		37,889	35,996
Miscellaneous	7,717	3,381		11,098	28,632
Telephone	17,143	1,765	328	19,236	16,098
Postage	4,585	2,519	3,883	10,987	15,638
Government taxes and fees	10,048	6,759		16,807	14,355
Change in estimate of allowance for doubtful accounts			3,720	3,720	6,923
Printing	667	320	2,214	3,201	3,563
Equipment rental	1,889	122	39	2,050	2,035
<b>Total Expenses Before Depreciation and Nonoperating Expenses</b>	<b>8,507,520</b>	<b>996,925</b>	<b>875,966</b>	<b>10,380,411</b>	<b>13,168,431</b>
Depreciation	394,942	60,260	15,720	470,922	475,980
Nonoperating expenses		916		916	482
<b>2020 Total Functional Expenses</b>	<b>\$ 8,902,462</b>	<b>\$ 1,058,101</b>	<b>\$ 891,686</b>	<b>\$ 10,852,249</b>	<b>\$ 13,644,893</b>
<b>2019 Total Functional Expenses</b>	<b>\$ 11,607,787</b>	<b>\$ 1,007,162</b>	<b>\$ 1,029,944</b>	<b>\$ -</b>	<b>\$ 13,644,893</b>

See accompanying notes.

## VILLAGE THEATRE

### Statement of Cash Flows For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

	2020	2019
<b>Operating Activities:</b>		
Change in net assets	\$ 2,887,642	\$ 251,944
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities-		
Depreciation	470,922	475,980
Amortization of loan fees	2,592	4,332
Contributions classified as financing activities	(263,375)	(590,977)
Contributions designated by the Board of Directors for long-term purposes	(3,003,889)	
Gain on investments	(381,844)	(13,103)
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	(84,795)	26,554
Pledges receivable	15,736	195,336
Grants receivable	20,901	163,379
Deferred production costs	545,488	124,694
Other assets	27,709	21,509
Accounts payable	(137,843)	8,413
Accrued wages and taxes	64,483	(4,435)
Deposits held in custody for others	10,766	3,452
Deferred revenue	(1,156,231)	268,068
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(981,738)</b>	<b>935,146</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(643,867)	(528,120)
Proceeds from sale of investments	509,994	290,484
Purchase of property and equipment and other long-term assets	(157,163)	(1,546,311)
<b>Net Cash Used in Investing Activities</b>	<b>(291,036)</b>	<b>(1,783,947)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from long-term debt	790,703	1,045,000
Principal payments on long-term debt	(73,851)	(106,149)
Capitalized loan fees		(11,135)
Payments on capital leases	(7,729)	(7,823)
Proceeds from contributions restricted for long-term purposes	225,445	250,297
Proceeds from contributions designated by the Board of Directors for long-term purposes	3,003,889	
<b>Net Cash Provided by Financing Activities</b>	<b>3,938,457</b>	<b>1,170,190</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>2,665,683</b>	<b>321,389</b>
Cash and cash equivalents, beginning of year	2,080,280	1,758,891
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4,745,963</b>	<b>\$ 2,080,280</b>
<b>Reconciliation to Statement of Financial Position:</b>		
Cash and cash equivalents	\$ 1,727,576	\$ 1,920,306
Reserved cash		156,242
Cash held for others	14,498	3,732
Board designated cash reserves	3,003,889	
<b>Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows</b>	<b>4,745,963</b>	<b>2,080,280</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 152,136	\$ 16,406

See accompanying notes.



## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### 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.

**Impacts of the COVID-19 Pandemic** - In early 2020, a novel strain of coronavirus (COVID-19) was identified and became prevalent throughout the world. The COVID-19 pandemic has caused business disruption through mandated and voluntary closings of businesses and restrictions on public gatherings. As a result of the spread of COVID-19 and at the government's direction, the Theatre stopped production of all plays and events effective March 12, 2020 for the final shows of the 2019-2020 season and also postponed all shows for the 2020-2021 season. As a result of the pandemic, the Theatre has experienced negative impacts to its operating revenues.

To mitigate the effects of the pandemic, the Theatre applied for and received a Paycheck Protection Program loan in the amount of \$640,000 and an Economic Injury Disaster Loan through the U.S. Small Business Administration in the amount of \$150,000 (Note 6). The Theatre has also communicated with subscribers and single ticket holders for the canceled shows in the 2019-2020 and 2020-2021 seasons and offered the option to donate the value of their tickets, convert them to credits for future performances, or contact the Theatre about other arrangements. Additionally, the Theatre has worked to reduce expenses significantly and modeled net revenue and cash flows through August 2023 based on updated budgeting. If external circumstances change beyond what is evident as of the date of issuance of these financial statements, the Theatre is prepared to reduce expenses further by furloughing staff and making adjustments to other expenses for projects moving forward. Based on management's assessment, the Theatre notes no indications of an inability to continue as a going concern.

It is not known when authorities will allow in-person performances, therefore the full financial impact and duration of the impacts of the COVID-19 pandemic cannot be reasonably estimated as of the date of issuance of these financial statements.

**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.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 1 - Continued

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.

**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.

**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.

**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.

**Board Designated Cash Reserves** - The Theatre has designated a portion of its contributions without donor restrictions. The associated cash is shown as board designated cash reserves on the statement of financial position. The reserves are to be used for operations and the Board's finance committee must approve their release prior to expenditure.

#### Revenue Recognition -

Subscriptions and Single Tickets - The Theatre presents theater performances and earns revenue from ticket sales. Tickets are sold in subscription packages and as single tickets and are generally purchased by customers in advance of the performances. Service fees are processed as a portion of ticket sales. Tickets sold are non-refundable. The Theatre's performance obligation for each ticket is to provide a seat at the applicable performance. Revenue from subscription packages and single tickets are recognized at the time the performance occurs.

Contribution Revenue - The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give are not recognized as revenues until the conditions on which they depend have been met. There were no conditional contributions as of August 30, 2020 or 2019. Contribution amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions.

Tuition Revenue - The Theatre hosts various youth education programs throughout the year and earns tuition revenue from those programs. Tuition is generally paid by customers either in advance of the related program dates or during the program's time frame. The Theatre's performance obligation for tuition balances paid is to provide the related youth education program to each student. Revenue from tuition for youth education programs is recognized at the time when the program occurs.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 1 - Continued

**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:

	<u>2020</u>	<u>2019</u>
Donated catering, travel and printing	\$ 96,648	\$ 242,367
Donated materials	<u>7,670</u>	<u>15,575</u>
	<u><u>\$ 104,318</u></u>	<u><u>\$ 257,942</u></u>

**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.

**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. At August 31, 2020, deferred revenue includes \$531,967 in credit vouchers issued to patrons to provide credit for missed shows during the 2019-2020 season that were cancelled as a result of the effects of COVID-19. Deferred revenue also includes approximately \$137,300 and \$101,000 in unredeemed gift certificates at August 31, 2020 and 2019, respectively.

**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 expensed as incurred. Total advertising expense for the years ended August 31, 2020 and 2019, was \$531,537 and \$894,254 respectively.

**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, 2020 and 2019. See Note 3 for allowance for doubtful accounts for pledges receivable.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### 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.

**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, 2020, and 2019 37% of the Theatre's pledges and grants receivable balance outstanding were from one donor/ grantor. At August 31, 2020 and 2019, 39% and 13%, respectively of the Theatre's contributed support was from one donor/grantor.

**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 and contributions designated by the Board of Directors. The annual appropriation from the endowment to support the Theater's operations is presented as a transfer out of the endowment activity and a transfer in to revenue subsection of the statement of activities and changes in net assets. Further information regarding the endowment funds is included in Note 12.

**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, 2019, from which the summarized information was derived.

**Adoption of New Accounting Pronouncement** - During the year ended August 31, 2020, the Theatre adopted the following Financial Accounting Standards Board's Accounting Standards Updates (ASU):

ASU No. 2016-18 - *Statement of Cash Flows: Restricted Cash*. This ASU requires that restricted cash be reflected in the total change in cash, cash equivalents, and restricted cash on the statement of cash flows. The Theatre implemented this ASU retrospectively for all periods presented in the financial statements.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 1 - Continued

ASU No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)* and other related ASUs. These ASUs replaced the existing revenue recognition guidance in U.S. GAAP and require entities to recognize revenues when control of the promised goods or service is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The primary effect of adoption of these ASUs for the Theatre is that advertising costs for future periods are now expensed as incurred. Previously the Theatre deferred advertising costs related to future productions and recognized them as expense in the period those productions occurred. The Theatre elected to adopt the changes from these ASUs using the full retrospective method, which required the Theatre to restate the financial statements for August 31, 2019.

The financial statements have been restated as follows as of and for the year ended August 31, 2019:

	As Previously Reported	Restatements	As Restated
<b>Impacted Lines - Statement of Financial Position</b>			
<b>Assets:</b>			
Deferred Production Costs	\$ 1,073,581	\$ (306,809)	\$ 766,772
<b>Net Assets:</b>			
Net assets without donor restrictions	\$ 7,360,823	\$ (306,809)	\$ 7,054,014
<b>Impacted Lines - Statement of Activities and Changes in Net Assets</b>			
<b>Expenses:</b>			
Production and program	\$ 11,200,739	\$ 6,019	\$ 11,206,758
<b>Net Assets:</b>			
Net assets beginning of year	\$ 8,831,856	\$ (300,790)	\$ 8,531,066
Change in net assets	\$ 257,963	\$ (6,019)	\$ 251,944

**Subsequent Events** - The Theatre has evaluated subsequent events through November 10, 2020, the date on which the financial statements were available to be issued.

#### Note 2 - Endowment Fund 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, 2020, and 2019, \$1,571,556 and \$1,404,893, 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.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 3 - Continued

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

	<u>2020</u>	<u>2019</u>
Receivables due in less than one year	\$ 360,052	\$ 389,796
Receivables due in one to five years	426,000	376,667
Less allowance for doubtful pledges	(27,500)	(27,500)
Less present value discount (1.88% - 3.23%)	<u>(11,328)</u>	<u>(13,933)</u>
<b>Total Pledges Receivable</b>	<b><u>\$ 747,224</u></b>	<b><u>\$ 725,030</u></b>

Reconciliation to amounts on the statement of financial position:

	<u>2020</u>	<u>2019</u>
Current pledges receivable	\$ 182,485	\$ 158,746
Long-term pledges and grants receivable	34,033	73,508
Pledges and grants restricted for long-term purposes	<u>530,706</u>	<u>492,776</u>
<b>Total Pledges Receivable</b>	<b><u>\$ 747,224</u></b>	<b><u>\$ 725,030</u></b>

#### Note 4 - Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Land	\$ 2,216,626	\$ 2,216,626
Buildings and improvements	13,095,693	13,030,335
Theatre equipment	1,903,357	1,827,738
Office equipment, furniture and fixtures	1,243,978	1,224,832
Automobiles	6,922	6,922
Construction in progress	<u></u>	<u>32,963</u>
	18,466,576	18,339,416
Less accumulated depreciation	<u>(7,525,814)</u>	<u>(7,084,895)</u>
<b>Total Property and Equipment, Net</b>	<b><u>\$ 10,940,762</u></b>	<b><u>\$ 11,254,521</u></b>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

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

The Theatre has the following investments as of August 31:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 6,735	\$ 1,022
Mutual funds-		
Stocks	1,370,744	983,871
Bonds	<u>123,131</u>	<u></u>
<b>Total Investments at Fair Value</b>	<b><u>\$ 1,500,610</u></b>	<b><u>\$ 984,893</u></b>

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, 2020 and 2019.

Money Market Funds - Valued at cost plus accrued interest, which approximates fair value. The money market funds held by the Theatre are deemed to be actively traded and are valued using level 1 inputs.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value of shares held by the Theatre at year end. The mutual funds held by the Theatre are deemed to be actively traded and are valued using level 1 inputs.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 5 - Continued

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 has a line of credit agreement with a bank for \$1,500,000. The interest rate for all borrowed amounts against the line of credit was a variable rate of prime plus with a floor of 5.5%, and the line is secured by a deed of trust on the Technical Studio. The line of credit agreement matures in July 2024. The Theatre did not have an outstanding balance at August 31, 2020 and 2019.

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

	<u>2020</u>	<u>2019</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.	\$ 1,668,223	\$ 1,732,807
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.	1,021,603	1,030,869
Note payable to Heritage Bank as part of the Paycheck Protection Program in the initial amount of \$640,000; bears interest at a fixed rate of 1%. Principal and interest are payable in monthly installments beginning ten months after the last day of the covered period, on April 7, 2021, through the maturity date of the loan on April 23, 2022.	640,000	
Note payable to the U.S. Small Business Administration in the initial amount of \$150,702; bears interest at a fixed rate of 2.75%; monthly payments of principal and interest of \$641; secured by all assets; matures in June 2050.	<u>150,702</u>	
Total notes payable	3,480,528	2,763,676
Less unamortized loan fees	(10,228)	(12,820)
Less current portion	<u>(357,156)</u>	<u>(113,968)</u>
<b>Long-Term Portion of Notes Payable</b>	<b><u>\$ 3,113,144</u></b>	<b><u>\$ 2,636,888</u></b>



## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 6 - Continued

In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. The \$640,000 Heritage Bank note payable was issued under the Payroll Protection Program (PPP). All or a portion of the PPP Loan may be forgiven if certain terms and conditions of the program are met.

To complete the loan forgiveness process management must submit a loan forgiveness application to the lender and then the lender and the Small Business Administration (SBA) must review and approve the application. A risk exists that the lender or the SBA may reject some or all of the requested forgiveness amount during the review process, in which case the Theatre will be required to repay the amount that is not forgiven. For the year ended August 31, 2020, management has concluded that the Theatre has incurred the qualifying expenditures and will apply for forgiveness. Subsequent to year end management applied for forgiveness of the loan, which is pending approval by the SBA.

The Theatre is subject to certain restrictive covenants under the notes payable and was in compliance with those covenants as of August 31, 2020 and 2019.

Future principal payments on the notes payable are as follows:

For the Year Ending August 31,

2021	\$ 357,156
2022	1,988,853
2023	22,326
2024	23,260
2025	24,511
Due thereafter	<u>1,064,422</u>
	3,480,528
Less unamortized loan fees	<u>(10,228)</u>
	<u><b>\$ 3,470,300</b></u>

#### 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	2020 Total	2019 Total
Gross revenues	\$ 355,604	\$ 314,197	\$ 669,801	\$ 1,014,537
Event expenses	<u>(23,928)</u>	<u>(35,798)</u>	<u>(59,726)</u>	<u>(199,625)</u>
<b>Excess of Fund-Raising Revenues Over Expenses</b>	<u><b>\$ 331,676</b></u>	<u><b>\$ 278,399</b></u>	<u><b>\$ 610,075</b></u>	<u><b>\$ 814,912</b></u>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 7 - Continued

The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2020 or 2019, 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. Effective November 1, 2020 and until the Theatre resumes Mainstage performances, the monthly compensation is reduced to \$6,250 per month.

#### 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 2025, or are on a month-to-month basis. Total rental expense for the years ended August 31, 2020 and 2019, was \$121,134 and \$177,556, respectively. Effective November 1, 2020, the lease contract with the City of Everett for the Cope Gillette Theatre was amended due to the COVID-19 pandemic. Under the new terms, the Theatre will pay one half the monthly rent until the Theatre can begin limited in-person classes and rehearsals.

At August 31, 2020, future minimum rental payments under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2021	\$ 52,929
2022	76,870
2023	55,809
2024	55,588
2025	55,588
	<hr/>
	<b><u>\$ 296,784</u></b>

**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, 2020 and 2019, was \$205,312 and \$225,012, respectively.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 9 - Continued

At August 31, 2020, future minimum rental receipts for the next five years under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2021	\$ 200,348
2022	141,211
2023	110,117
2024	110,117
2025	109,730
Thereafter	<u>569,222</u>
	<u><u>\$ 1,240,745</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 \$18,240 on the capital lease asset is included in office equipment, furniture and fixtures on the statement of financial position as of August 31, 2020 (Note 4).

At August 31, 2020, future minimum lease payments under the capital lease are \$4,536 for the year ending August 31, 2021.

**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, 2020 and 2019, employer contributions of \$51,461 and \$56,684, 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 \$0 and \$71,950 at August 31, 2020 and 2019, 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. The Actor's Equity Association released the Theatre from the obligation for the 2020/2021 season. As a result, no reserved cash was reported on the statement of financial position as of August 31, 2020. As of August 31, 2019, \$156,242, was reported as reserved cash on the statement of financial position for the 2019-2020 season.

The Theatre negotiated an agreement with the American Federation of Musicians Local 76-493, effective August 15, 2019 through August 14, 2022. 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 9.372% of salaries for both union and nonunion musicians.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 9 - Continued

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, 2020, approximately 37% 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, 2020, 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:

	<u>2020</u>	<u>2019</u>
Subject to the passage of time or expenditure for specified purposes-		
Operations and productions	\$ 149,000	\$ 231,200
Capital projects		
Restricted for use in future periods	119,494	136,141
Accumulated unspent earnings on endowment	437,469	89,829
Endowment funds-		
General endowment	872,161	771,367
Youth education endowment	102,500	102,500
Village Originals endowment	8,895	8,895
Pledges receivable for endowment	494,640	389,064
	<u><u>\$ 2,184,159</u></u>	<u><u>\$ 1,728,996</u></u>

#### 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.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

---

#### Note 12 - 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 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, 2020 and 2019.

**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 endowment funds 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.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2020 (With Comparative Totals for 2019)

#### Note 12 - Continued

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

	Without Donor Restriction	With Donor Restriction	Total
Endowment funds, September 1, 2018	\$ 12,263	\$ 721,892	\$ 734,155
Endowment investment return	39	20,683	20,722
Contributions and collections on pledges		230,016	230,016
<b>Endowment Funds, August 31, 2019</b>	<b>12,302</b>	<b>972,591</b>	<b>984,893</b>
Endowment investment return	14,675	380,181	394,856
Contributions and collections on pledges	53,000	100,794	153,794
Distributions	(392)	(32,541)	(32,933)
<b>Endowment Funds, August 31, 2020</b>	<b>\$ 79,585</b>	<b>\$ 1,421,025</b>	<b>\$ 1,500,610</b>

Separate funds within the endowment are comprised of the following at August 31, 2020:

	Corpus	Accumulated Unspent Earnings	Total
General endowment	\$ 872,161	\$ 354,414	\$ 1,226,575
Youth education endowment	102,500	61,942	164,442
Village Originals endowment	8,895	21,114	30,009
Board designated endowment	63,000	16,584	79,584
	<b>\$ 1,046,556</b>	<b>\$ 454,054</b>	<b>\$ 1,500,610</b>

#### 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 Theatre also has board designated cash reserves that it can draw upon (see Note 1).

**VILLAGE THEATRE****Notes to Financial Statements  
For the Year Ended August 31, 2020  
(With Comparative Totals for 2019)**

---

**Note 13 - Continued**

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.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,727,576	\$ 1,920,306
Accounts receivable, net, collected in less than one year	106,034	21,239
Pledges receivable, net, collected in less than one year	182,485	158,746
Grants receivable, net, collected in less than one year	308,249	329,150
Investments	<u>1,500,610</u>	<u>984,893</u>
 Total financial assets, excluding noncurrent receivables and restricted cash	 3,824,954	 3,414,334
 Contractual or donor-imposed restrictions-		
Endowment fund investments	(1,500,610)	(984,893)
Other donor restrictions on pledges to be collected in less than one year	<u>(141,000)</u>	<u>(66,500)</u>
 <b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	 <b><u>\$ 2,183,344</u></b>	 <b><u>\$ 2,362,941</u></b>