

**VILLAGE THEATRE**

Financial Statements

For the Year Ended August 31, 2021

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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, 2021, 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, 2021, and its activities and changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Theatre's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Clark Nuber PS*

Certified Public Accountants  
December 7, 2021

# VILLAGE THEATRE

## Statement of Financial Position

August 31, 2021

(With Comparative Totals for 2020)

	2021	2020
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 5,612,082	\$ 1,727,576
Cash held for others	20,803	14,498
Board designated cash reserves	3,004,190	3,003,889
Accounts receivable	89,833	106,034
Pledges receivable, net (Note 3)	60,698	182,485
Grants receivable	232,781	308,249
Employee Retention Credit receivable	416,086	
Deferred production costs	252,501	221,284
Other current assets	307,419	76,147
<b>Total Current Assets</b>	<b>9,996,393</b>	<b>5,640,162</b>
Endowment investments (Note 5)	2,166,700	1,500,610
Long-term pledges and grants receivable (Note 3)	59,070	34,033
Pledges and grants restricted for long-term purposes (Note 3)	165,196	36,067
Pledges and grants restricted for endowment (Note 3)	510,264	494,639
Property and equipment, net of accumulated depreciation (Note 4)	10,581,478	10,940,762
Other long-term assets	15,000	15,000
<b>Total Assets</b>	<b>\$ 23,494,101</b>	<b>\$ 18,661,273</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 202,861	\$ 40,999
Accrued wages and taxes	74,924	175,710
Deposits held in custody for others	20,803	14,498
Deferred revenue	3,018,598	2,752,610
Deferred ticket credits	418,824	531,967
Current portion of capital lease (Note 9)		4,537
Current portion of long-term debt (Note 6)	1,669,615	357,156
<b>Total Current Liabilities</b>	<b>5,405,625</b>	<b>3,877,477</b>
Long-term debt, less current portion (Note 6)	2,682,824	3,113,144
<b>Total Liabilities</b>	<b>8,088,449</b>	<b>6,990,621</b>
<b>Net Assets:</b>		
Without donor restrictions (Note 10)	12,312,488	9,486,493
With donor restrictions (Note 11)	3,093,164	2,184,159
<b>Total Net Assets</b>	<b>15,405,652</b>	<b>11,670,652</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 23,494,101</b>	<b>\$ 18,661,273</b>

See accompanying notes.

# VILLAGE THEATRE

## Statement of Activities and Changes in Net Assets For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
			2020 Total
<b>Operating Revenue and Support:</b>			
Revenue-			
Ticket sales	\$ 107,058	\$ -	\$ 107,058
Tuition	636,608		636,608
Leases and other income	313,222		313,222
Management fees (Note 8)	87,500		87,500
Interest income	2,544		2,544
Endowment earnings appropriated for expenditure	60,267		60,267
Total revenue	1,207,199		1,207,199
General Support-			
Corporate sponsorships and contributions	200,890	140,000	340,890
Patron contributions	1,256,421	90,720	1,347,141
Foundation support	144,858		144,858
Government grants	184,788	18,750	203,538
Fundraising events, gross (Note 7)	284,207		284,207
ArtsFund	81,215		81,215
In-kind	7,728		7,728
Release of restrictions	213,461	(213,461)	
Total general support	2,373,568	36,009	2,409,577
COVID-19 Support-			
Ticket donations due to COVID-19, net of allowance	9,075		9,075
Paycheck Protection Program loan forgiveness	640,000		640,000
Employee Retention Credits	749,219		749,219
Shuttered Venue Operators Grant	3,106,721		3,106,721
Total COVID-19 support	4,505,015		4,505,015
<b>Total Operating Revenue and Support</b>	<b>8,085,782</b>	<b>36,009</b>	<b>8,121,791</b>
<b>Expenses:</b>			
Production and program	3,051,697		3,051,697
General and administrative	1,049,807		1,049,807
Fundraising	851,952		851,952
<b>Total Expenses</b>	<b>4,953,456</b>		<b>4,953,456</b>
<b>Change in Net Assets From Operating Activities Before Depreciation</b>	<b>3,132,326</b>	<b>36,009</b>	<b>3,168,335</b>
Depreciation	(463,548)		(463,548)
<b>Change in Net Assets From Operating Activities</b>	<b>2,668,778</b>	<b>36,009</b>	<b>2,704,787</b>

See accompanying notes.

**VILLAGE THEATRE**

**Statement of Activities and Changes in Net Assets (Continued)**  
**For the Year Ended August 31, 2021**  
**(With Comparative Totals for 2020)**

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
			2020 Total
<b>Nonoperating Activities:</b>			
Contributions designated by the board			3,003,889
Corporate capital contributions	3,000		2,000
Patron capital contributions	100	253,105	2,005
Foundation capital contributions		75,000	
Government capital contributions		18,000	
Interest income	475		523
Nonoperating expense	(1,183)		(916)
Release of restrictions	15,000	(15,000)	
<b>Total Nonoperating Activities</b>	<b>17,392</b>	<b>331,105</b>	<b>3,007,501</b>
<b>Endowment Campaign:</b>			
Contributions designated by the board	110,000		110,000
Corporate contributions		5,000	7,500
Patron contributions		216,274	251,870
Endowment earnings appropriated for expenditure	(6,388)	(53,879)	(32,933)
Investment return	36,213	374,496	394,856
<b>Total Endowment Campaign</b>	<b>139,825</b>	<b>541,891</b>	<b>621,293</b>
<b>Total Change in Net Assets From Nonoperating Activities</b>	<b>157,217</b>	<b>872,996</b>	<b>3,628,794</b>
<b>Total Change in Net Assets</b>	<b>2,825,995</b>	<b>909,005</b>	<b>3,735,000</b>
Net assets, beginning of year	9,486,493	2,184,159	11,670,652
<b>Net Assets, End of Year</b>	<b>\$ 12,312,488</b>	<b>\$ 3,093,164</b>	<b>\$ 15,405,652</b>

See accompanying notes.

# VILLAGE THEATRE

## Statement of Functional Expenses For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

	Production and Program	General and Administrative	Fundraising	2021 Total	2020 Total
Salaries and employee benefits	\$ 2,054,237	\$ 593,046	\$ 734,064	\$ 3,381,347	\$ 7,393,858
Advertising	58,680	4,729	22,366	85,775	531,537
Rights and royalties	47,246		600	47,846	409,167
Travel, meals and accommodations	15,582	7,336	10,173	33,091	162,711
Box office and front of house	176,831			176,831	292,933
Facility rental and maintenance	175,724	60,771	2,058	238,553	288,330
Sets and costumes	24,929			24,929	274,570
Charge card fees	84,095	2,413		86,508	167,174
Supplies	27,012	13,833	440	41,285	109,950
Event catering and supplies		181	42,497	42,678	52,665
Utilities	71,988	6,894	1,612	80,494	107,870
Data processing and IT	28,418	95,986	13,627	138,031	132,650
Interest and loan fees	62,001	116,205	1,288	179,494	166,899
Scholarships	50,485			50,485	62,125
Insurance	48,515	10,410	1,546	60,471	74,502
Training and dues	8,622	48,297	2,102	59,021	48,482
Professional fees	58,438	78,120		136,558	37,889
Miscellaneous	3,401	328		3,729	11,098
Telephone	19,335	1,988	389	21,712	19,236
Postage	597	2,897	3,324	6,818	10,987
Government taxes and fees	11,624	6,197	20	17,841	16,807
Change in estimate of allowance for doubtful accounts	21,700		15,745	37,445	3,720
Printing	667	75	74	816	3,201
Equipment rental	1,570	101	27	1,698	2,050
<b>Total Expenses Before Depreciation and Nonoperating Expenses</b>	<b>3,051,697</b>	<b>1,049,807</b>	<b>851,952</b>	<b>4,953,456</b>	<b>10,380,411</b>
Depreciation	389,648	58,689	15,211	463,548	470,922
Nonoperating expenses		1,183		1,183	916
<b>2021 Total Functional Expenses</b>	<b>\$ 3,441,345</b>	<b>\$ 1,109,679</b>	<b>\$ 867,163</b>	<b>\$ 5,418,187</b>	<b>\$ -</b>
<b>2020 Total Functional Expenses</b>	<b>\$ 8,902,462</b>	<b>\$ 1,058,101</b>	<b>\$ 891,686</b>	<b>\$ -</b>	<b>\$ 10,852,249</b>

See accompanying notes.



# VILLAGE THEATRE

## Statement of Cash Flows For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

	2021	2020
<b>Operating Activities:</b>		
Change in net assets	\$ 3,735,000	\$ 2,887,642
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities-		
Depreciation	463,548	470,922
Amortization of loan fees	2,592	2,592
Contributions for capital assets or endowment	(570,479)	(263,375)
Gain on investments	(406,391)	(381,844)
Forgiveness of Paycheck Protection Program loan	(640,000)	
Loss on sale of fixed assets	198	
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	16,201	(84,795)
Pledges receivable	96,750	15,736
Grants receivable	75,468	20,901
Employee Retention Credit receivable	(416,086)	
Deferred production costs	(31,217)	545,488
Other assets	(231,272)	27,709
Accounts payable	161,862	(137,843)
Accrued wages and taxes	(100,786)	64,483
Deposits held in custody for others	6,305	10,766
Deferred revenue	265,988	(1,688,198)
Deferred ticket credits	(113,143)	531,967
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>2,314,538</b>	<b>2,022,151</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(259,699)	(643,867)
Proceeds from sale of investments		509,994
Purchase of property and equipment	(104,462)	(157,163)
<b>Net Cash Used in Investing Activities</b>	<b>(364,161)</b>	<b>(291,036)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from long-term debt	1,610,399	790,703
Principal payments on long-term debt	(90,852)	(73,851)
Payments on capital leases	(4,537)	(7,729)
Proceeds from contributions restricted for long-term purposes	425,725	225,445
<b>Net Cash Provided by Financing Activities</b>	<b>1,940,735</b>	<b>934,568</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>3,891,112</b>	<b>2,665,683</b>
Cash and cash equivalents, beginning of year	4,745,963	2,080,280
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 8,637,075</b>	<b>\$ 4,745,963</b>
<b>Reconciliation to Statement of Financial Position:</b>		
Cash and cash equivalents	\$ 5,612,082	\$ 1,727,576
Cash held for others	20,803	14,498
Board designated cash reserves	3,004,190	3,003,889
<b>Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows</b>	<b>\$ 8,637,075</b>	<b>\$ 4,745,963</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 168,767	\$ 152,136

See accompanying notes.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### Note 1 - Organization and Significant Accounting Policies

**Organization** - Village Theatre (the Theatre) is a Washington nonprofit corporation that produces live dramatic performances in Issaquah and Everett, Washington. It is the Theatre's mission to be a regionally recognized and nationally influential center of excellence in family theatre by promoting a season of top quality productions, commissioning and producing new musicals that achieve national exposure, training young people in theatre skills, developing appreciation for live theatre and promoting positive values through art.

**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.

To mitigate the effects of the pandemic, the Theatre applied for and received a Paycheck Protection Program loan in the amount of \$640,000 during the year ended August 31, 2020, which was forgiven and recognized as revenue as of December 2, 2020. For the fiscal year ending August 31, 2021, the Theatre applied for and received a second Paycheck Protection Program loan in the amount of \$1,606,203 (Note 6) and a Shuttered Venue Operators Grant in the amount of \$3,106,721. Both programs are administered through the U.S. Small Business Administration. The Theatre received \$749,219 in Employee Retention Tax Credits from the Internal Revenue Service, \$416,086 of which are pending processing by the IRS for retroactive filings for 2020.

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.

The full extent of the 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, 2021 (With Comparative Totals for 2020)

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#### 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 \$646,020 conditional contributions as of August 30, 2021 and none for the year ended August 31, 2020. 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, 2021 (With Comparative Totals for 2020)

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#### 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>2021</u>	<u>2020</u>
Donated catering, travel and printing	\$ 3,291	\$ 96,648
Donated materials	<u>4,437</u>	<u>7,670</u>
	<u><u>\$ 7,728</u></u>	<u><u>\$ 104,318</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. Deferred ticket credits are credit vouchers issued to patrons to provide credit for missed shows during the season that were cancelled as a result of the effects of COVID-19. Deferred revenue also includes approximately \$87,371 and \$137,300 in unredeemed gift certificates at August 31, 2021 and 2020, 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, 2021 and 2020, was \$85,775 and \$531,537 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, 2021 and 2020. See Note 3 for allowance for doubtful accounts for pledges receivable.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### 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, 2021, and 2020 52% and 37% of the Theatre's pledges and grants receivable balance outstanding were from two and one donors/ grantors, respectively. At August 31, 2021 and 2020, 41% and 39% of the Theatre's contributed support was from one donor/grantor, respectively.

**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 contributions designated by the Board of Directors, capital, and endowment activity. 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 into 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, 2020, from which the summarized information was derived.

**Reclassifications** - Certain accounts in the 2020 financial statements have been reclassified for comparative purposes to conform to the presentation of the 2021 financial statements. The reclassifications have no effect on the previously reported total assets, total liabilities, total net assets, or to the change in net assets.

**Subsequent Events** - The Theatre has evaluated subsequent events through December 7, 2021, the date on which the financial statements were available to be issued.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### 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, 2021, and 2020, \$1,899,204 and \$1,571,556, 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. Future collections of pledges receivable at August 31 are expected as follows:

	<u>2021</u>	<u>2020</u>
Receivables due in less than one year	\$ 339,099	\$ 360,052
Receivables due in one to five years	493,000	426,000
Less allowance for doubtful pledges	(27,500)	(27,500)
Less present value discount (0.64% - 1.88%)	<u>(9,371)</u>	<u>(11,328)</u>
<b>Total Pledges Receivable</b>	<b><u>\$ 795,228</u></b>	<b><u>\$ 747,224</u></b>

Reconciliation to amounts on the statement of financial position:

	<u>2021</u>	<u>2020</u>
Current pledges receivable	\$ 60,698	\$ 182,485
Long-term pledges and grants receivable	59,070	34,033
Pledges and grants restricted for long-term purposes	165,196	36,067
Pledges and grants restricted for endowment	<u>510,264</u>	<u>494,639</u>
<b>Total Pledges Receivable</b>	<b><u>\$ 795,228</u></b>	<b><u>\$ 747,224</u></b>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

#### Note 4 - Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 2,216,626	\$ 2,216,626
Buildings and improvements	13,064,536	13,095,693
Theatre equipment	1,925,384	1,903,357
Office equipment, furniture and fixtures	1,287,904	1,243,978
Automobiles	18,067	6,922
Construction in progress	<u>54,729</u>	
	18,567,246	18,466,576
Less accumulated depreciation	<u>(7,985,768)</u>	<u>(7,525,814)</u>
<b>Total Property and Equipment, Net</b>	<b><u>\$ 10,581,478</u></b>	<b><u>\$ 10,940,762</u></b>

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

The Theatre has the following investments as of August 31:

	<u>2021</u>	<u>2020</u>
Investments at fair value-		
Money market funds	\$ 60,506	\$ 4,551
Mutual funds-		
Stocks	1,916,188	1,370,744
Bonds	<u>183,673</u>	<u>123,131</u>
Total investments at fair value	2,160,367	1,498,426
Investment in life insurance policy valued using lower of cost or fair value	<u>6,333</u>	<u>2,184</u>
<b>Total Investments</b>	<b><u>\$ 2,166,700</u></b>	<b><u>\$ 1,500,610</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).

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### Note 5 - Continued

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, 2021 and 2020.

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.

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% (5.5% for the years ended August 31, 2021 and 2020), 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, 2021 and 2020.



# VILLAGE THEATRE

## Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

### Note 6 - Continued

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

	<u>2021</u>	<u>2020</u>
Note payable to Pacific Premier (FKA Opus Bank) in the initial amount of \$2,845,000; bears interest at the five-year Constant Maturity Treasury rate plus 3.5%; monthly payments of principal and interest are adjusted periodically as of July 2017 the interest rate was adjusted to 5.28% and payments of \$15,623; secured by a deed of trust on the Theatre building; matures in June 2022.	\$ 1,583,244	\$ 1,668,223
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% for the period including the year ended August 31, 2021 and 2020); monthly payments of principal and interest of \$5,666; secured by a deed of trust on the apartment building; matures in September 2028.	1,015,730	1,021,603
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%. This loan was forgiven during the year ended August 31, 2021.		640,000
Note payable to Heritage Bank as part of the Paycheck Protection Program in the initial amount of \$1,606,203; 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 September 16, 2021, through the maturity date of the loan on April 2, 2026.	1,606,203	
Note payable to the U.S. Small Business Administration in the initial amount of \$150,000; 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>154,898</u>	<u>150,702</u>
Total notes payable	4,360,075	3,480,528
Less unamortized loan fees	(7,636)	(10,228)
Less current portion	<u>(1,669,615)</u>	<u>(357,156)</u>
<b>Long-Term Portion of Notes Payable</b>	<b><u>\$ 2,682,824</u></b>	<b><u>\$ 3,113,144</u></b>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### 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). This note was forgiven in December 2020 under the conditions of the program. On April 1, 2021, the Theatre received a second Payroll Protection Program loan through Heritage Bank in the amount of \$1,606,203.

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, 2021, management has concluded that the Theatre has incurred the qualifying expenditures and will apply for forgiveness.

The Theatre is subject to certain restrictive covenants under the notes payable and was in compliance with those covenants as of August 31, 2021 and 2020.

Management's intent is to refinance the Pacific Premier note payable that matures in June 2022.

Future principal payments on the notes payable are as follows:

For the Year Ending August 31,

2022	\$ 1,669,615
2023	435,354
2024	440,399
2025	445,803
2026	308,573
Due thereafter	<u>1,060,331</u>
	4,360,075
Less unamortized loan fees	<u>(7,636)</u>
	<u><u>\$ 4,352,439</u></u>

#### Note 7 - Fund-Raising Events

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

	<u>2021</u>	<u>2020</u>
Gross revenues	\$ 295,420	\$ 669,801
Event expenses	<u>(34,472)</u>	<u>(59,726)</u>
<b>Excess of Fund-Raising Revenues Over Expenses</b>	<u><u>\$ 260,948</u></u>	<u><u>\$ 610,075</u></u>

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### Note 7 - Continued

Fund raising events for the year ended August 31, 2021, included Sing it Forward Fund raising events for the year ended August 31, 2020 included Sing it Forward and the gala auction. The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2021 or 2020, 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. 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 2026, or are on a month-to-month basis. Total rental expense for the years ended August 31, 2021 and 2020, was \$105,003 and \$121,134, 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, 2021, future minimum rental payments under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2022	\$ 77,898
2023	56,836
2024	56,615
2025	56,615
2026	27,766
	<hr/>
	<b>\$ 275,730</b>

**Tenant Leases** - The Theatre has tenants who lease office space, retail space at the Francis J. Gaudette Theatre, with terms that expire through 2030. Total rental revenue for the years ended August 31, 2021 and 2020, was \$198,049 and \$205,312, respectively.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### Note 9 - Continued

At August 31, 2021, future minimum rental receipts for the next five years under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2022	\$ 187,672
2023	195,996
2024	201,496
2025	125,021
2026	88,227
Thereafter	<u>332,864</u>
	<u><u>\$ 1,131,276</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, 2021 and 2020, employer contributions of \$41,400 and \$51,461, respectively, were contributed to the Plan.

**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, as a result, no reserved cash was reported on the statement of financial position as of August 31, 2020. The amount to be reserved for the 2021/2022 season has not yet been communicated to the Theatre; therefore, no amount is reserved at August 31, 2021.

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.

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. On July 23, 2021 Village Theatre and IATSE Local 15 and 887 entered into a memo of understanding to extend the existing contract until August 21, 2022.

At August 31, 2021, approximately 3% of the Theatre's total labor force is covered by the collective bargaining agreements described above.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### Note 10 - Net Assets Without Donor Restrictions

Net assets without donor restrictions consist of the following at August 31:

	<u>2021</u>	<u>2020</u>
Board designated cash reserves for operations	\$ 3,004,190	\$ 3,003,889
Board designated quasi-endowment	219,410	79,584
Undesignated	<u>9,088,888</u>	<u>6,403,020</u>
	<u><u>\$ 12,312,488</u></u>	<u><u>\$ 9,486,493</u></u>

#### Note 11 - Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to the passage of time or expenditure for specified purposes-		
Operations and productions	\$ 119,750	\$ 149,000
Capital projects	347,810	
Restricted for use in future periods	168,050	119,494
Accumulated unspent earnings on endowment	758,085	437,469
Endowment funds-		
General endowment	892,810	872,161
Mainstage endowment	50,000	
Youth education endowment	237,500	102,500
Village Originals endowment	8,895	8,895
Pledges receivable for endowment	<u>510,264</u>	<u>494,640</u>
	<u><u>\$ 3,093,164</u></u>	<u><u>\$ 2,184,159</u></u>

#### Note 12 - Endowment Funds

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.

## VILLAGE THEATRE

### Notes to Financial Statements For the Year Ended August 31, 2021 (With Comparative Totals for 2020)

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#### Note 12 - Continued

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, 2021 and 2020.

**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, 2021 (With Comparative Totals for 2020)

#### Note 12 - Continued

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

	Without Donor Restriction	With Donor Restriction	Total
Endowment funds, September 1, 2019	\$ 12,302	\$ 972,591	\$ 984,893
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>
Endowment investment return	36,213	374,496	410,709
Contributions and collections on pledges		205,648	205,648
Contributions designated by the board	110,000		110,000
Distributions	(6,388)	(53,879)	(60,267)
<b>Endowment Funds, August 31, 2021</b>	<b>\$ 219,410</b>	<b>\$ 1,947,290</b>	<b>\$ 2,166,700</b>

Separate funds within the endowment are comprised of the following at August 31, 2021:

	Corpus	Accumulated Unspent Earnings	Total
General endowment	\$ 892,810	\$ 614,402	\$ 1,507,212
Mainstage endowment	50,000	4,207	54,207
Youth education endowment	237,500	112,035	349,535
Village Originals endowment	8,895	27,441	36,336
Board designated quasi-endowment	173,000	46,410	219,410
	<b>\$ 1,362,205</b>	<b>\$ 804,495</b>	<b>\$ 2,166,700</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, 2021 (With Comparative Totals for 2020)

### 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 5,612,082	\$ 1,727,576
Accounts receivable, net, collected in less than one year	89,833	106,034
Pledges receivable, net, collected in less than one year	60,698	182,485
Grants receivable, net, collected in less than one year	232,781	308,249
Investments	2,166,700	1,500,610
Employer Retention Tax Credit receivable, collected in less than one year	<u>416,086</u>	
Total financial assets, excluding noncurrent receivables and restricted cash	8,578,180	3,824,954
Contractual or donor-imposed restrictions-		
Endowment fund investments	(2,166,700)	(1,500,610)
Other donor restrictions on pledges to be collected in less than one year	<u>(77,500)</u>	<u>(141,000)</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<u><u>\$ 6,333,980</u></u>	<u><u>\$ 2,183,344</u></u>