

VILLAGE THEATRE

Financial Statements

For the Year Ended August 31, 2022

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Independent Auditor's Report

**To the Board of Directors
Village Theatre
Issaquah, Washington**

Opinion

We have audited the financial statements of Village Theatre (the Theatre), which comprise the statement of financial position as of August 31, 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Theatre as of August 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Theatre and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Summarized Comparative Information

We have previously audited the Theatre's August 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Theatre's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Theatre's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Clark Nuber PS

Certified Public Accountants
December 13, 2022

VILLAGE THEATRE

Statement of Financial Position
August 31, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 6,622,700	\$ 5,612,082
Reserved cash (Note 9)	157,438	
Cash held for others	19,095	20,803
Board designated cash reserves	3,014,327	3,004,190
Accounts receivable	54,313	89,833
Pledges receivable, net (Note 3)	171,494	60,698
Grants receivable	149,448	232,781
Employee Retention Tax Credit receivable		416,086
Deferred production costs	645,245	252,501
Other current assets	182,462	307,419
Total Current Assets	11,016,522	9,996,393
Endowment investments (Note 5)	2,299,503	2,166,700
Long-term pledges and grants receivable (Note 3)	102,449	59,070
Pledges and grants restricted for long-term purposes (Note 3)	18,300	165,196
Pledges and grants restricted for endowment (Note 3)	273,443	510,264
Property and equipment, net of accumulated depreciation (Note 4)	10,421,019	10,581,478
Other long-term assets	15,000	15,000
Total Assets	\$ 24,146,236	\$ 23,494,101
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 326,167	\$ 202,861
Accrued wages and taxes	258,732	74,924
Accrued interest	31,641	
Deposits held in custody for others	19,095	20,803
Deferred revenue	3,414,645	3,018,598
Deferred ticket credits		418,824
Notes payable, current portion (Note 6)	51,791	1,669,615
Total Current Liabilities	4,102,071	5,405,625
Notes payable, net of current portion (Note 6)	2,463,806	2,682,824
Total Liabilities	6,565,877	8,088,449
Net Assets:		
Without donor restrictions (Note 10)	14,605,085	12,312,488
With donor restrictions (Note 11)	2,975,274	3,093,164
Total Net Assets	17,580,359	15,405,652
Total Liabilities and Net Assets	\$ 24,146,236	\$ 23,494,101

See accompanying notes.

VILLAGE THEATRE

Statement of Activities and Changes in Net Assets For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

	2022		Total	2021 Total
	Without Donor Restrictions	With Donor Restrictions		
Operating Revenue and Support:				
Revenue-				
Ticket sales	\$ 4,698,092	\$ -	\$ 4,698,092	\$ 107,058
Tuition	819,095		819,095	636,608
Leases and other income	649,138		649,138	313,222
Management fees (Note 8)	135,156		135,156	87,500
Interest income	19,150		19,150	2,544
Endowment earnings appropriated for expenditure				60,267
Total revenue	6,320,631		6,320,631	1,207,199
General Support-				
Corporate sponsorships and contributions	187,011	100,000	287,011	340,890
Patron contributions	1,341,342	110,479	1,451,821	1,347,141
Foundation support	195,648	500	196,148	144,858
Government grants	147,079	16,500	163,579	203,538
Fundraising events, gross (Note 7)	884,152	5,000	889,152	284,207
ArtsFund	86,675		86,675	81,215
In-kind	48,676		48,676	7,728
Release of restrictions	230,934	(230,934)		
Total general support	3,121,517	1,545	3,123,062	2,409,577
COVID-19 Support-				
Ticket donations due to COVID-19, net of allowance				9,075
Paycheck Protection Program loan forgiveness	1,606,203		1,606,203	640,000
Employee Retention Tax Credits	13,089		13,089	749,219
King County Revive and Thrive	1,516,120		1,516,120	
Shuttered Venue Operators Grant	2,356,462		2,356,462	3,106,721
Total COVID-19 support	5,491,874		5,491,874	4,505,015
Total Operating Revenue and Support	14,934,022	1,545	14,935,567	8,121,791
Expenses:				
Production and program	9,958,815		9,958,815	3,051,697
General and administrative	1,222,944		1,222,944	1,049,807
Fundraising	1,015,974		1,015,974	851,952
Total Expenses	12,197,733		12,197,733	4,953,456
Change in Net Assets From Operating Activities Before Depreciation	2,736,289	1,545	2,737,834	3,168,335
Depreciation	(463,796)		(463,796)	(463,548)
Change in Net Assets From Operating Activities	2,272,493	1,545	2,274,038	2,704,787

See accompanying notes.

VILLAGE THEATRE

Statement of Activities and Changes in Net Assets (Continued)
 For the Year Ended August 31, 2022
 (With Comparative Totals for 2021)

	2022		Total	2021 Total
	Without Donor Restrictions	With Donor Restrictions		
Nonoperating Activities:				
Corporate capital contributions				3,000
Patron capital contributions	3,400	1,704	5,104	253,205
Foundation capital contributions				75,000
Government capital contributions				18,000
Interest income				475
Nonoperating expense	(417)		(417)	(1,183)
Total Nonoperating Activities	2,983	1,704	4,687	348,497
Endowment Campaign:				
Contributions designated by the board	65,000		65,000	110,000
Corporate contributions				5,000
Patron contributions		284,940	284,940	216,274
Endowment earnings appropriated for expenditure				(60,267)
Investment return	(47,879)	(406,079)	(453,958)	410,709
Total Endowment Campaign	17,121	(121,139)	(104,018)	681,716
Total Change in Net Assets From Nonoperating Activities	20,104	(119,435)	(99,331)	1,030,213
Total Change in Net Assets	2,292,597	(117,890)	2,174,707	3,735,000
Net assets, beginning of year	12,312,488	3,093,164	15,405,652	11,670,652
Net Assets, End of Year	\$ 14,605,085	\$ 2,975,274	\$ 17,580,359	\$ 15,405,652

See accompanying notes.

VILLAGE THEATRE

Statement of Functional Expenses For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

	Production and Program	General and Administrative	Fundraising	2022 Total	2021 Total
Salaries and employee benefits	\$ 6,569,533	\$ 621,237	\$ 742,433	\$ 7,933,203	\$ 3,381,347
Advertising	704,078	7,052	33,292	744,422	85,775
Rights and royalties	453,176		11	453,187	47,846
Travel, meals and accommodations	204,973	38,390	25,409	268,772	33,091
Box office and front of house	368,035			368,035	176,831
Facility, equipment rental and maintenance	288,731	69,905	3,669	362,305	240,251
Sets and costumes	315,814			315,814	24,929
Charge card fees	134,689	7,476	13,544	155,709	86,508
Supplies	504,205	32,095	4,187	540,487	41,285
Event catering and supplies			168,269	168,269	42,678
Utilities	146,344	14,817	3,129	164,290	102,206
Data processing and IT	44,616	125,357	13,687	183,660	138,031
Interest and loan fees	43,946	88,278		132,224	179,494
Scholarships	43,288			43,288	50,485
Insurance	52,145	10,656	1,634	64,435	60,471
Training and dues	14,670	32,717	3,744	51,131	59,021
Professional fees	36,000	162,036		198,036	136,558
Miscellaneous	17,198	646		17,844	3,729
Postage and printing	5,442	2,840	2,966	11,248	7,634
Government taxes and fees	11,932	8,362		20,294	17,841
Change in estimate of allowance for doubtful accounts		1,080		1,080	37,445
Total Expenses Before Depreciation and Nonoperating Expenses	9,958,815	1,222,944	1,015,974	12,197,733	4,953,456
Depreciation	388,080	59,985	15,731	463,796	463,548
Nonoperating expenses		417		417	1,183
2022 Total Functional Expenses	\$ 10,346,895	\$ 1,283,346	\$ 1,031,705	\$ 12,661,946	\$ -
2021 Total Functional Expenses	\$ 3,441,345	\$ 1,109,679	\$ 867,163	\$ -	\$ 5,418,187

See accompanying notes.

VILLAGE THEATRE

Statement of Cash Flows For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

	2022	2021
Operating Activities:		
Change in net assets	\$ 2,174,707	\$ 3,735,000
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	463,796	463,548
Amortization of loan fees	2,462	2,592
Contributions for capital assets or endowment	(290,044)	(570,479)
Loss (gain) on investments	494,344	(406,391)
Forgiveness of Paycheck Protection Program loan	(1,606,203)	(640,000)
Loss on sale of property and equipment		198
Cash provided (used) by changes in operating assets and liabilities:		
Accounts receivable	35,520	16,201
Pledges receivable	(154,175)	96,750
Grants receivable	83,333	75,468
Employee Retention Tax Credit receivable	416,086	(416,086)
Deferred production costs	(392,744)	(31,217)
Other assets	124,957	(231,272)
Accounts payable	92,579	161,862
Accrued wages and taxes	183,808	(100,786)
Accrued interest	31,641	
Deposits held in custody for others	(1,708)	6,305
Deferred revenue	396,047	265,988
Deferred ticket credits	(418,824)	(113,143)
Net Cash Provided by Operating Activities	1,635,582	2,314,538
Cash Flows From Investing Activities:		
Purchase of investments	(627,147)	(259,699)
Purchase of property and equipment	(272,610)	(104,462)
Net Cash Used in Investing Activities	(899,757)	(364,161)
Cash Flows From Financing Activities:		
Proceeds from notes payable	1,845,102	1,610,399
Principal payments on notes payable	(2,078,203)	(90,852)
Payments on capital leases		(4,537)
Proceeds from contributions restricted for long-term purposes	673,761	425,725
Net Cash Provided by Financing Activities	440,660	1,940,735
Net Change in Cash and Cash Equivalents	1,176,485	3,891,112
Cash and cash equivalents, beginning of year	8,637,075	4,745,963
Cash and Cash Equivalents, End of Year	\$ 9,813,560	\$ 8,637,075
Reconciliation to Statement of Financial Position:		
Cash and cash equivalents	\$ 6,622,700	\$ 5,612,082
Reserved cash	157,438	
Cash held for others	19,095	20,803
Board designated cash reserves	3,014,327	3,004,190
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows	\$ 9,813,560	\$ 8,637,075
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 93,484	\$ 168,767

See accompanying notes.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

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.

During the year ended August 31, 2022, the Theatre was able to return to live performances; however, COVID-19 continued to impact its operations. The Theatre experienced negative impacts to its operating revenues as a result of pandemic restrictions. This was offset by pursuit of pandemic emergency relief funding and cost reductions. The full extent of the COVID-19 pandemic on audience attendance and donor support is still uncertain.

Basis of Presentation - Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Theatre and changes therein are classified and reported as follows:

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

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

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

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.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 1 - Continued

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 Theatre 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 in outstanding conditional contributions as of August 30, 2022 and 2021; these contributions will be used for building of a storage warehouse and building improvements to the Francis J. Gaudette Theatre. 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.

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, which are used in operations.

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>2022</u>	<u>2021</u>
Donated catering, travel and printing	\$ 25,336	\$ 3,291
Donated materials	<u>23,340</u>	<u>4,437</u>
	<u><u>\$ 48,676</u></u>	<u><u>\$ 7,728</u></u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 1 - Continued

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 \$70,000 and \$87,000 in unredeemed gift certificates at August 31, 2022 and 2021, 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, 2022 and 2021, was \$744,422 and \$85,775 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, 2022 and 2021. See Note 3 for allowance for doubtful accounts for pledges receivable.

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, 2022 and 2021, 37% and 52% of the Theatre's pledges and grants receivable balance outstanding were from two donors/grantors, respectively. At August 31, 2022 and 2021, 60% and 41% of the Theatre's contributed support were from three donors/grantors and one donor/grantor, respectively.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 1 - Continued

Loan Fees - Loan fees are recorded as a direct deduction to the related note payable 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 Theatre's operations is presented as a transfer out of the endowment activity and a transfer into the 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, 2021, from which the summarized information was derived.

Subsequent Events - The Theatre has evaluated subsequent events through December 13, 2022, 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, 2022 and 2021, \$2,240,604 and \$1,899,204, 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>2022</u>	<u>2021</u>
Receivables due in less than one year	\$ 337,595	\$ 339,099
Receivables due in one to five years	264,000	493,000
Less allowance for doubtful pledges	(26,100)	(27,500)
Less present value discount (0.64% - 4.05%)	<u>(9,809)</u>	<u>(9,371)</u>
Total Pledges Receivable	<u>\$ 565,686</u>	<u>\$ 795,228</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 3 - Continued

Reconciliation to amounts on the statement of financial position:

	<u>2022</u>	<u>2021</u>
Current pledges receivable	\$ 171,494	\$ 60,698
Long-term pledges and grants receivable	102,449	59,070
Pledges and grants restricted for long-term purposes	18,300	165,196
Pledges and grants restricted for endowment	<u>273,443</u>	<u>510,264</u>
Total Pledges Receivable	<u>\$ 565,686</u>	<u>\$ 795,228</u>

Note 4 - Property and Equipment

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

	<u>2022</u>	<u>2021</u>
Land	\$ 2,216,626	\$ 2,216,626
Buildings and improvements	13,229,063	13,064,536
Theatre equipment	1,978,828	1,925,384
Office equipment, furniture and fixtures	1,368,835	1,287,904
Automobiles	18,067	18,067
Construction in progress	<u>59,164</u>	<u>54,729</u>
	18,870,583	18,567,246
Less accumulated depreciation	<u>(8,449,564)</u>	<u>(7,985,768)</u>
Total Property and Equipment, Net	<u>\$ 10,421,019</u>	<u>\$ 10,581,478</u>

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 5 - Investments and Fair Value Measurements

The Theatre has the following investments as of August 31:

	<u>2022</u>	<u>2021</u>
Investments at fair value-		
Money market funds	\$ 397,335	\$ 60,506
Mutual funds-		
Stocks	1,729,219	1,916,188
Bonds	<u>162,554</u>	<u>183,673</u>
Total investments at fair value	2,289,108	2,160,367
Investment in life insurance policy valued using lower of cost or fair value	<u>10,395</u>	<u>6,333</u>
Total Investments	<u>\$ 2,299,503</u>	<u>\$ 2,166,700</u>

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.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 5 - Continued

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, 2022 and 2021.

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, 2022 and 2021). The line is secured by a deed of trust on the Technical Studio and matures in July 2024. The Theatre did not have an outstanding balance at August 31, 2022 and 2021.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 6 - Continued

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

	<u>2022</u>	<u>2021</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. Note was paid off during the year ended August 31, 2022.	\$ -	\$ 1,583,244
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, 2022 and 2021); monthly payments of principal and interest of \$5,666; secured by a deed of trust on the apartment building; matures in September 2028.	520,771	1,015,730
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. Loan was forgiven during the year ended August 31, 2022.		1,606,203
Note payable to the U.S. Small Business Administration in the initial amount of \$150,000, additional borrowing in March 2022 increased loan balance to \$2,000,000; bears interest at a fixed rate of 2.75%; monthly payments of principal and interest of \$8,750; secured by deed of trust on Theatre building; matures in June 2050.	<u>2,000,000</u>	<u>154,898</u>
Total notes payable	2,520,771	4,360,075
Less unamortized loan fees	(5,174)	(7,636)
Less current portion	<u>(51,791)</u>	<u>(1,669,615)</u>
Long-Term Portion of Notes Payable	<u>\$ 2,463,806</u>	<u>\$ 2,682,824</u>

VILLAGE THEATRE

**Notes to Financial Statements
For the Year Ended August 31, 2022
(With Comparative Totals for 2021)**

Note 6 - Continued

The Theatre is subject to certain restrictive covenants under the notes payable and was in compliance with those covenants as of August 31, 2022 and 2021.

Future principal payments on the notes payable are as follows:

For the Year Ending August 31,

2023	\$ 51,791
2024	95,832
2025	99,329
2026	103,221
2027	107,279
Due thereafter	<u>2,063,319</u>
	2,520,771
Less unamortized loan fees	<u>(5,174)</u>
	<u><u>\$ 2,515,597</u></u>

Note 7 - Fund-Raising Events

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

	<u>Gala and Auction</u>	<u>Sing It Forward</u>	<u>2022</u>	<u>2021</u>
Gross revenues	\$ 725,617	\$ 158,535	\$ 884,152	\$ 295,420
Event expenses	<u>(113,900)</u>	<u>(44,008)</u>	<u>(157,908)</u>	<u>(34,472)</u>
Excess of Fund-Raising Revenues Over Expenses	<u><u>\$ 611,717</u></u>	<u><u>\$ 114,527</u></u>	<u><u>\$ 726,244</u></u>	<u><u>\$ 260,948</u></u>

Fund raising events for the year ended August 31, 2022, included Sing It Forward and the Gala and Auction. Fund raising events for the year ended August 31, 2021 included only Sing It Forward. The expenses above do not account for all fundraising expenses incurred by the Theatre for the years ended August 31, 2022 or 2021, 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.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

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 was reduced to \$6,250 per month. The Theatre resumed Mainstage performances on November 19, 2021 at the Center and began paying the full compensation under the agreement including inflation adjustments. The current monthly management fee as of August 31, 2022 is \$12,954.

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, 2022 and 2021, was \$130,602 and \$105,003, 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 paid one half the monthly rent until the Theatre began limited in-person classes and rehearsals in July 2021.

At August 31, 2022, future minimum rental payments under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2023	\$	81,213
2024		59,392
2025		59,392
2026		<u>29,154</u>
	\$	<u><u>229,151</u></u>

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, 2022 and 2021, was \$206,079 and \$198,049, respectively.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 9 - Continued

At August 31, 2022, future minimum rental receipts for the next five years under all noncancelable operating leases are as follows:

For the Year Ending August 31,

2023	\$	201,157
2024		206,657
2025		130,181
2026		93,388
2027		93,388
Thereafter		<u>258,830</u>
	\$	<u><u>983,601</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, 2022 and 2021, employer contributions of \$53,395 and \$41,400, 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 amount was \$157,438 at August 31, 2022 for the 2022/23 seasons and is reported as reserved cash on the statement of financial position. The Actor's Equity Association released the Theatre from the obligation for the 2021/2022, as a result, no reserved cash was reported on the statement of financial position as of August 31, 2021.

The Theatre negotiated an agreement with the American Federation of Musicians Local 76-493, effective August 15, 2022 through August 14, 2023. 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 9.72% of salaries for both union and nonunion musicians.

The Theatre signed a three-year agreement with the IATSE Local 15 and 887 effective August 27, 2018. Under this agreement, the Theatre has an obligation to pay pension contributions of 4% of the salaries of union members. This contract was 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. Contract negotiations between management and IATSE for future years are ongoing. Management has no concerns about their ability to renew this contract and continue operations with IATSE Union members.

At August 31, 2022, approximately 36% 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, 2022 (With Comparative Totals for 2021)

Note 10 - Net Assets Without Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Board designated cash reserves for operations	\$ 3,014,327	\$ 3,004,190
Board designated quasi-endowment	236,529	219,410
Undesignated	<u>11,354,229</u>	<u>9,088,888</u>
	<u>\$ 14,605,085</u>	<u>\$ 12,312,488</u>

Note 11 - Net Assets With Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to the passage of time or expenditure for specified purposes-		
Operations and productions	\$ 106,500	\$ 119,750
Capital projects	347,810	347,810
Restricted for use in future periods	184,548	168,050
Accumulated unspent earnings on endowment	352,006	758,085
Endowment funds-		
General endowment	1,021,872	892,810
Mainstage endowment	80,050	50,000
Youth education endowment	477,099	237,500
Village Originals endowment	136,945	8,895
Pledges receivable for endowment	<u>268,444</u>	<u>510,264</u>
	<u>\$ 2,975,274</u>	<u>\$ 3,093,164</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, 2022 (With Comparative Totals for 2021)

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 with donor restrictions. Deficiencies of this nature existed in five donor-restricted endowment funds as of August 31, 2022, which included an original gift value of \$272,600, a current fair value of \$250,070, and a deficiency of \$22,530. No deficiencies of this nature existed as of August 31, 2021.

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, 2022
(With Comparative Totals for 2021)

Note 12 - Continued

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

	Without Donor Restriction	With Donor Restriction	Total
Endowment funds, September 1, 2020	\$ 79,585	\$ 1,421,025	\$ 1,500,610
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)
Endowment Funds, August 31, 2021	219,410	1,947,290	2,166,700
Endowment investment return	(47,879)	(406,079)	(453,958)
Contributions and collections on pledges		526,761	526,761
Contributions designated by the board	60,000		60,000
Endowment Funds, August 31, 2022	\$ 231,531	\$ 2,067,972	\$ 2,299,503

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

	Corpus	Accumulated Unspent Earnings	Total
General endowment	\$ 1,021,872	\$ 332,549	\$ 1,354,421
Mainstage endowment	80,050	(6,689)	73,361
Youth education endowment	477,099	9,678	486,777
Village Originals endowment	136,945	16,470	153,415
Board designated quasi-endowment	233,000	(1,471)	231,529
	\$ 1,948,966	\$ 350,537	\$ 2,299,503

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 13 - Federal COVID-Relief Funding

The following reflects the federal COVID-19 relief funding presented in the statement of activities and changes in net assets for the years ended August 31:

	<u>2022</u>	<u>2021</u>
Paycheck Protection Program loan forgiveness	\$ 1,606,203	\$ 640,000
Shuttered Venue Operators Grant	2,356,462	3,106,721
Employee Retention Tax Credits	<u>13,089</u>	<u>749,219</u>
Total Federal-COVID Relief Funding	<u>\$ 3,975,754</u>	<u>\$ 4,495,940</u>

Paycheck Protection Program - In response to the COVID-19 pandemic, the U.S. Congress passed the 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 Theatre obtained two loans under the PPP with principal balances of \$640,000 and \$1,606,203, respectively (Note 6). All or a portion of the PPP loans may be forgiven if certain terms and conditions of the program are met. The Theatre's accounting policy for recognition of revenue from forgiveness of the PPP loans is to recognize the revenue when the loans are forgiven by the lender. The \$640,000 PPP loan was forgiven in full during the year ending June 30, 2021. The \$1,606,203 PPP loan was forgiven in full during the year ending June 30, 2022.

Shuttered Venue Operators Grant - On July 14, 2021, The Theatre was awarded a Shuttered Venue Operators Grant (SVOG) of \$3,106,721 and on December 12, 2021, The Theatre was awarded a SVOG supplemental grant of \$2,356,462. The Theatre recognized \$2,356,462 and \$3,106,721 as revenue during the years ended August 31, 2022, and 2021, respectively. The SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act, and provides COVID-19 relief funding for operators of venues impacted by the pandemic. This grant program is administered by the Small Business Administration and required compliance auditing in accordance with federal guidelines for the years ended August 31, 2022 and 2021.

Employee Retention Tax Credit (ERTC) - In response to the COVID-19 pandemic, the U.S. Congress passed the CARES Act. Included in the CARES Act was the ERTC to encourage businesses and not-for-profit organizations impacted by COVID-19 to keep employees on their payroll. The ERTC is a refundable tax credit computed based on wages paid by The Theatre. The Theatre's accounting policy for the ERTC is to record revenue when an amended tax return is filed with the government. Total ERTC revenue recognized during the years ended August 31, 2022 and 2021, was \$13,089 and \$749,219, respectively.

VILLAGE THEATRE

Notes to Financial Statements For the Year Ended August 31, 2022 (With Comparative Totals for 2021)

Note 14 - 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).

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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 6,622,700	\$ 5,612,082
Accounts receivable, net, collected in less than one year	54,313	89,833
Pledges receivable, net, collected in less than one year	171,494	60,698
Grants receivable, net, collected in less than one year	149,448	232,781
Investments	2,299,503	2,166,700
Employer Retention Tax Credit receivable, collected in less than one year		416,086
	<hr/>	<hr/>
Total financial assets, excluding noncurrent receivables and restricted cash	9,297,458	8,578,180
Contractual or donor-imposed restrictions-		
Endowment fund investments	(2,299,503)	(2,166,700)
Other donor restrictions on pledges to be collected in less than one year	(69,000)	(77,500)
	<hr/>	<hr/>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 6,928,955</u>	<u>\$ 6,333,980</u>