A CONTEMPORARY THEATRE, INC.
AND AFFILIATES

Consolidated Financial Statements

For the Years Ended
December 31, 2012 and 2011

Table of Contents

CLARK NUBER

10900 NE 4th Street
Suite 1700
Bellevue WA 98004
tel 425 454 4919
fax 425 454 4620
800 504 8747
clarknuber.com

Certified Public
Accountants
and Consultants

Independent Auditors' Report

Board of Directors
A Contemporary Theatre, Inc. and Affiliates
Seattle, Washington

We have audited the accompanying financial statements of A Contemporary Theatre, Inc. and Affiliates (collectively, the Theatre), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated 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.

Auditors' 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 entity'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 entity'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.

CLARK NUBER

Certified Public Accountants and Consultants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Theatre as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Notes 7 and 11, the Theatre has a line of credit and loans that mature in 2013. Management's plans regarding the Theatre's financial condition is described in Note 11. Our opinion is not modified with respect to those matters.

Report on 2012 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2012 consolidated financial statements as a whole. The 2012 supplementary information on pages 16 and 18 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on 2011 Financial Information

The consolidated financial statements of the Theatre as of December 31, 2011, were audited by other auditors, whose report dated June 25, 2012, expressed an unmodified opinion on those consolidated statements. The 2011 supplementary information on pages 17 and 19 was subjected to the auditing procedures applied in the audit of the 2011 consolidated financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2011 consolidated financial statements as a whole.

Clark Nuber P.S.

Certified Public Accountants
October 1, 2013

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Financial Position
December 31, 2012 and 2011

	2012	*2011*
Assets		
Current Assets:		
Cash and cash equivalents	$ 230,314	$ 397,185
Accounts and interest receivable	55,682	82,095
Current portion of pledges receivable	115,422	110,191
Prepaid expenses and deposits	111,162	75,389
Total Current Assets	**512,580**	**664,860**
Pledges receivable, net of current portion	269,417	178,482
Property and equipment, net	15,066,020	809,141
Investment in Kreielsheimer Place		14,481,609
Investments	2,037,483	2,017,677
Total Assets	**$ 17,885,500**	**$ 18,151,769**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 437,857	$ 383,858
Accrued expenses	238,045	228,554
Current portion of deferred revenue	22,915	22,915
Advance ticket sales	1,115,796	949,457
Line of credit	1,860,000	
Current portion of notes payable	475,635	260,000
Total Current Liabilities	**4,150,248**	**1,844,784**
Line of credit		1,557,845
Notes payable, net of current portion		145,635
Deferred revenue, net of current portion	527,022	549,937
Total Liabilities	**4,677,270**	**4,098,201**
Net Assets:		
Unrestricted	10,695,974	11,772,613
Temporarily restricted	269,973	110,191
Permanently restricted	2,242,283	2,170,764
Total Net Assets	**13,208,230**	**14,053,568**
Total Liabilities and Net Assets	**$ 17,885,500**	**$ 18,151,769**

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Unrestricted Activities
For the Years Ended December 31, 2012 and 2011

	2012	*2011*
Revenue and Support:		
Subscriptions and single tickets	$ 2,548,587	$ 2,387,507
Contribution revenue	2,316,656	3,237,835
Contributions and investment income released from restriction	103,038	4,838
Memberships	236,128	143,144
In-kind contributions	229,696	326,413
Interest	93	
Other revenue	488,125	491,521
Total Revenue and Support	**5,922,323**	**6,591,258**
Expenses:		
Artistic and production	3,928,415	4,094,235
Audience development and services	1,324,931	1,483,234
Development	681,261	575,236
Administration	1,064,355	877,700
Total Expenses	**6,998,962**	**7,030,405**
Change in Unrestricted Net Assets	**$ (1,076,639)**	**$ (439,147)**

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2012 and 2011

	2012	*2011*
Unrestricted Activities		
Revenue and support	$ 5,819,285	$ 6,586,420
Contributions and investment income released from restriction	103,038	4,838
Expenses	(6,998,962)	(7,030,405)
Change in Unrestricted Net Assets	**(1,076,639)**	**(439,147)**
Temporarily Restricted Activities		
Contributions	245,762	2,675
Endowment investment income	17,058	4,838
Contributions and investment income released from restriction	(103,038)	(4,838)
Change in Temporarily Restricted Net Assets	**159,782**	**2,675**
Permanently Restricted Activities		
Endowment contributions	71,519	3,655
Change in Permanently Restricted Net Assets	**71,519**	**3,655**
Total Change in Net Assets	**(845,338)**	**(432,817)**
Net assets, beginning of year	14,053,568	14,486,385
Net Assets, End of Year	**$ 13,208,230**	**$ 14,053,568**

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Cash Flows
For the Year Ended December 31, 2012 and 2011

	2012	*2011*
Cash Flows from Operating Activities:		
Change in net assets	$ (845,338)	$ (432,817)
Adjustments to reconcile change in net assets		
to net cash used by operating activities-		
Depreciation	236,416	92,370
Loss on disposal of property and equipment	6,363	
Loss on investment in Kreielsheimer Place		425,830
Forgiveness of notes payable	(200,000)	(370,000)
Accrued interest on investments	(19,806)	
Cash (used) provided by changes in operating assets and liabilities:		
Accounts and interest receivable	26,413	(54,406)
Pledges receivable	(96,166)	(6,913)
Prepaid expenses and deposits	(35,773)	84,664
Accounts payable	53,999	(74,311)
Accrued expenses	9,491	(20,263)
Advance ticket sales	166,339	127,174
Deferred revenue	(22,915)	(22,915)
Net Cash Used by Operating Activities	**(720,977)**	**(251,587)**
Cash Flows from Investing Activities:		
Purchase of property and equipment	(18,049)	(437,386)
Net Cash Used by Investing Activities	**(18,049)**	**(437,386)**
Cash Flows from Financing Activities:		
Proceeds from line of credit	302,155	530,679
Proceeds from notes payable	370,000	550,000
Payments on notes payable	(100,000)	
Net Cash Provided by Financing Activities	**572,155**	**1,080,679**
Net Change in Cash and Cash Equivalents	**(166,871)**	**391,706**
Cash and cash equivalents, beginning of year	397,185	5,479
Cash and Cash Equivalents, End of Year	**$ 230,314**	**$ 397,185**
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 78,807	$ 72,083

See accompanying notes.

Note 1 - Organization and Significant Accounting Policies

Organization - A Contemporary Theatre, Inc. (ACT) was incorporated in 1965 for artistic, cultural, and educational purposes. ACT's main operation is the presentation of staged performances for the purpose of entertainment.

Eagles Theatre Centre (ETC), a separate Washington nonprofit corporation, was formed in 1994 to manage the development and construction of Kreielsheimer Place, the Theatre's performance and administrative facility in downtown Seattle, Washington. The only activity in ETC is the management of Kreielsheimer Place.

A Contemporary Theatre Foundation (the Foundation), a Washington nonprofit corporation was formed in October 2000 to receive and invest donations for the benefit of the Theatre and for the management of an endowment.

Principles of Consolidation - ACT, ETC and the Foundation (collectively, the Theatre) have some common board members and common management. Accordingly, the results of ACT, ETC and the Foundation have been consolidated. All significant intercompany transactions have been eliminated upon consolidation.

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

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Theatre and/or the passage of time.

Permanently Restricted Net Assets - Permanently restricted net assets must be maintained by the Theatre in perpetuity, the income of which is expendable for operations. Permanently restricted net assets increase when the Theatre receives contributions for which donor-imposed restrictions limiting the Theatre's use of an asset for its economic benefits neither expire with the passage of time nor can be removed by the Theatre meeting certain requirements.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Theatre has adopted a policy to classify temporarily restricted contributions as unrestricted to the extent that temporary restrictions were met in the year the contribution was received.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles (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.

Note 1 - Continued

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.

Pledges Receivable and Contribution Revenue - Contributions are recognized when the donor makes a promise to give (pledge) to the Theatre that is, in substance, unconditional. Contributions of noncash assets are recognized at their estimated fair market value on the date of contribution. Unconditional promises to give that are expected to be collected in future years are recorded at the fair value of their estimated future cash flows. The discounts on those amounts are computed using the discount rate adjustment technique, in which the rate is based upon what the market participant, would demand. Amortization of the discounts is included in contribution revenue.

Conditional promises to give are not reported as contribution revenue until the conditions are substantially met.

The Theatre uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible pledges as of December 31, 2012 and 2011.

Contribution amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes.

Investments - Investments in certificates of deposit and Series I bonds are carried at cost plus accrued interest. Interest and dividends are included in investment return as earned.

Property and Equipment - The Theatre's property and equipment 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 5 to 40 years.

Advance Ticket Sales - Advance ticket sales for future performances are accrued and reported as a liability and are recognized as revenue when performances are completed.

Financial Instruments and Credit Risk Concentration - Financial instruments that potentially subject the Theatre to concentrations of credit risk consist of cash and cash equivalents and pledges receivable. The Theatre places its temporary cash deposits with one major financial institution. At times, balances may exceed federally insured limits. The Theatre has not experienced a credit loss associated with cash investments.

Donated Services and Materials - The Theatre receives various donated services and materials that contribute to its operations. Certain professional services and materials have been recorded at their estimated fair value at the date of receipt if there was an objective basis to determine fair value. For the years ended December 31, 2012 and 2011, donated services and materials equaled $229,696 and $326,413, respectively.

In addition to those services and materials that have been recorded, a substantial number of volunteers 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 consolidated financial statements.

Note 1 - Continued

Advertising - The Theatre expenses advertising costs as they are incurred. Total advertising expense for the years ended December 31, 2012 and 2011, was $234,078 and $432,259, respectively.

Federal Income Taxes - The IRS has determined that ACT, ETC and the Foundation are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. The Theatre files income tax returns with the U.S. government. The Organization is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Allocation of Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of unrestricted activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications - Certain accounts in the 2011 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2012 consolidated financial statements. These reclassifications had no effect on total assets, total liabilities, net assets or change in net assets reported for 2011.

Subsequent Events - The Theatre has evaluated subsequent events through October 1, 2013, the date on which the financial statements were available to be issued.

Note 2 - Pledges Receivable

Pledges receivable consisted of the following at December 31:

	2012	*2011*
Receivables due in less than one year	$ 365,422	$ 110,191
Receivables due in two to five years	20,000	250,000
Less present value discount (3%)	(583)	(71,518)
Total Pledges Receivable, Net	**$ 384,839**	**$ 288,673**

A pledge receivable of $250,000 from a single donor that is restricted for the endowment is included in total pledges receivable above. This pledge is scheduled to be collected in 2013 but is reported as a noncurrent pledge receivable on the consolidated statements of financial position at December 31, 2012 because the use of the proceeds is restricted to investment in the endowment.

Pledges receivable of approximately $26,000 and $5,000 are due from board members or members of management at December 31, 2012 and 2011, respectively.

Note 3 - Investments

Investments consisted of the following at December 31:

	2012	*2011*
Certificates of deposit	$ 1,994,295	$ 1,987,677
Series I bonds	43,188	30,000
	$ 2,037,483	**$ 2,017,677**

Investment return for the years ended December 31, 2012 and 2011 totaled $23,769 and $4,838, respectively, and consisted of interest income.

A certificate of deposit totaling $1,961,624 at December 31, 2012 and 2011 is pledged as collateral for line of credit describe in Note 7. A certificate of deposit totaling $32,671 and $26,053 at December 31, 2012 and 2011, respectively is pledged as an equity bond for an actors' union.

Note 4 - Property and Equipment

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

	2012	*2011*
Building and improvements	$ 12,678,574	$ 608,106
Land	2,411,188	
Theatre equipment	1,165,765	1,151,687
Theatre furnishings and lights	179,795	179,795
Office and other equipment	714,747	710,823
Box office and development software	392,360	392,360
Automobile	10,000	10,000
Construction in progress		6,363
	17,552,429	3,059,134
Less accumulated depreciation	(2,486,409)	(2,249,993)
Total Property and Equipment, Net	**$ 15,066,020**	**$ 809,141**

During 2012, property was transferred to the Theatre from a related party (see Note 5). The property received was valued at the previous book value of the Theatre's equity method investment in the related party, which totaled $14,481,609. Accordingly, no gain or loss was recorded in 2012 by the Theatre as a result of the transfer.

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 was $236,416 and $92,370, respectively.

Note 4 - Continued

The Theatre's building is subject to various legal restrictions on its use.

The Theatre's building is a part of a condominium. The Theatre is a member in the condominium association that maintains certain common spaces that benefit the Theatre and the owner of the other unit in the condominium, and makes dues payments to the condominium association.

Note 5 - Investment in Kreielsheimer Place

During 1995, ETC entered into a limited partnership agreement (the Partnership Agreement) with Eagles Apartments (EA), a wholly owned subsidiary of Bellwether Housing (BH, formerly known as Housing Resources Group,) to jointly acquire and restore the Eagles Auditorium (the Theatre Unit) for use by the Theatre, and the site of 44 low-income housing units (the Housing Unit). ETC and EA were general partners in the partnership, Eagles Auditorium Limited Partnership (EALP), and ETC was the managing partner. ETC used the equity method to account for its investment in EALP.

Effective November 30, 2011 a withdrawal agreement was entered into by EA, BH, ETC and EALP. EA and BH terminated their participation as partners. EALP was dissolved for federal tax purposes and filed its final tax return for the period ended November 30, 2011. During 2011, the Housing Unit was conveyed to Eagles Housing LLC, whose sole member is BH. All debt and regulatory obligations related to the operations of the apartments was assigned to Eagles Housing LLC. During 2012, the Theatre Unit was transferred to ETC and EALP was legally terminated.

The Theatre leased the Theatre Unit from EALP until December 1, 2011, at which time the lease was terminated. Lease expense for 2011 totaled $225,090. There was no lease expense for 2012.

Note 6 - Deferred Revenue

During 1995, the Theatre received approximately $917,000 from the City of Seattle in exchange for certain "public benefits." The City of Seattle has rights to use certain facilities in Kreielsheimer Place up to 15 times each year for a 40 year period. The amount received is amortized over the term of the obligation on a straight-line basis in the amount of $22,915 per year.

Note 7 - Line of Credit and Notes Payable

Line of credit and notes payable consisted of the following as of December 31:

	2012	*2011*
Revolving line of credit secured by investments, prime interest rate less 0.25% (not less than 3.75%), due September 30, 2013.	$ 1,860,000	$ 1,557,845
Note payable to a financial institution, unsecured, guaranteed by a board member, prime interest rate (not less than 4%), annual principal payments of $100,000 with final balance due at maturity on December 31, 2013, monthly interest payments.	95,635	195,635
Notes payable from individuals, unsecured, interest rates ranging from 1% to 4%, due December 31, 2012.	10,000	160,000
Related party notes payable, unsecured, interest rates ranging from 0% to 3%, due December 31, 2013.	370,000	50,000
Total debt	2,335,635	1,963,480
Less current portion	(2,335,635)	(260,000)
Line of Credit and Notes Payable, Net of Current Portion	**$ -**	**$ 1,703,480**

Total interest expense for the years ended December 31, 2012 and 2011 was $78,807 and $72,083, respectively.

The related party notes are payable to executives of the Theatre. Notes payable to related parties and other individuals of $200,000 and $370,000 were forgiven during the years ended December 31, 2012 and 2011, respectively.

The Theatre is in negotiations with its line of credit lender to extend the expiration date of the line of credit.

Note 8 - Benefit Plan

The Theatre maintains a tax-deferred savings plan (the Plan), which is available to substantially all of its full-time regular and full-time seasonal employees. The Plan is funded by discretionary employee contributions. The Theatre made no payments to the plan during 2012 or 2011.

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012 consisted of $160,000 restricted for the transformation capital campaign, $25,000 restricted for HVAC repairs and maintenance, $14,551 for unappropriated endowment income, and $70,422 for pledges receivable scheduled to be received in future periods.

Temporarily restricted net assets at December 31, 2011 consisted of $20,000 for program activities and $90,191 for pledges receivable scheduled to be received in future periods.

Note 10 - Permanently Restricted Net Assets and Endowment

The Theatre's permanently restricted endowment consists of donor-restricted funds established to support the Theatre's operations. As required by GAAP, net assets associated with permanently restricted endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Theatre has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Theatre classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Theatre in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Theatre 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 the appreciation of investments;
- Other resources of the Theatre; and
- The investment policies of the Theatre.

Note 10 - Continued

Changes to endowment net assets are as follows for the year ended December 31:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2011	$ 398	$ -	$ 2,167,109	$ 2,167,507
Interest and dividends		4,838		4,838
Change in present value discount of pledges receivable (contribution revenue)			3,655	3,655
Appropriation of endowment for expenditure	4,838	(4,838)		
Distributions to Theatre	(4,402)			(4,402)
Other Foundation expenses	(289)			(289)
Endowment Net Assets, December 31, 2011	**545**		**2,170,764**	**2,171,309**
Interest and dividends		17,058		17,058
Change in present value discount of pledges receivable (contribution revenue)			71,519	71,519
Appropriation of endowment for expenditure	2,507	(2,507)		
Distributions to Theatre	(1,935)			(1,935)
Other Foundation expenses	(572)			(572)
Endowment Net Assets, December 31, 2012	**$ 545**	**$ 14,551**	**$ 2,242,283**	**$ 2,257,379**

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. These deficiencies generally result from unfavorable market fluctuations. In accordance with GAAP, there were no deficiencies of this nature reported in unrestricted net assets at December 31, 2012 or 2011.

Return Objectives and Risk Parameters - The Theatre has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the principal of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Theatre must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve the principal. The Theatre expects its endowment funds, over time, to provide an average rate of return of approximately 1.5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - The Theatre relies on a total return strategy in which investment returns are achieved through current yield (interest and dividends). The Theatre targets a safe asset allocation that places a greater emphasis on endowment preservation.

Note 10 - Continued

Policy for Appropriating Endowment Assets for Expenditure - Income of the endowment shall be distributed at least annually and used exclusively for charitable and educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code. Any principal funds which have not been restricted by the donors, testators or transferors, may be expended, pledged, or offered as security.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Theatre did not have a formal spending policy with regards to endowment funds as of December 31, 2012 or 2011.

Note 11 - Financial Condition

As shown in the accompanying consolidated financial statements, the Theatre incurred net losses (change in unrestricted net assets) of $1,076,639 and $439,147 during the years ended December 31, 2012 and 2011. Additionally, the Theatre's current liabilities exceed its current assets by approximately $3.6 million at December 31, 2012. Included in current liabilities at December 31, 2012 is a line of credit with a bank of $1.86 million that expires on September 30, 2013.

The Theatre is under steady management and is in the process of an institutional turnaround that includes initiatives to increase revenues and improve operational cash flows. To address the current liabilities accumulated at December 31, 2012 management obtained a loan from a related party that closed and was funded on October 1, 2013. The loan is for $1.25 million, carries interest at 8%, and matures on October 31, 2015. Additionally, as of October 1, 2013, management is in negotiations with its line of credit lender to extend the expiration date of the line of credit.

SUPPLEMENTARY INFORMATION

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2012

	ACT	ETC	Foundation	Consolidated Total
Assets				
Current Assets:				
Cash and cash equivalents	$ 227,355	$ 196	$ 2,763	$ 230,314
Accounts and interest receivable	55,682			55,682
Current portion of pledges receivable	115,422			115,422
Prepaid expenses and deposits	71,162	40,000		111,162
Total Current Assets	**469,621**	**40,196**	**2,763**	**512,580**
Pledges receivable, net of current portion	19,417		250,000	269,417
Property and equipment, net	710,144	14,355,876		15,066,020
Investments	32,671		2,004,812	2,037,483
Interorganization receivables/payables	24,988	(24,792)	(196)	
Total Assets	**$ 1,256,841**	**$ 14,371,280**	**$ 2,257,379**	**$ 17,885,500**
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable	$ 397,857	$ 40,000	$ -	$ 437,857
Accrued expenses	238,045			238,045
Current portion of deferred revenue	22,915			22,915
Advance ticket sales	1,115,796			1,115,796
Line of credit	1,860,000			1,860,000
Current portion of notes payable	475,635			475,635
Total Current Liabilities	**4,110,248**	**40,000**		**4,150,248**
Deferred revenue, net of current portion	527,022			527,022
Total Liabilities	**4,637,270**	**40,000**		**4,677,270**
Net Assets:				
Unrestricted	(3,635,851)	14,331,280	545	10,695,974
Temporarily restricted	255,422		14,551	269,973
Permanently restricted			2,242,283	2,242,283
Total Net Assets	**(3,380,429)**	**14,331,280**	**2,257,379**	**13,208,230**
Total Liabilities and Net Assets	**$ 1,256,841**	**$ 14,371,280**	**$ 2,257,379**	**$ 17,885,500**

See independent auditors' report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2011

	ACT	*ETC*	*Foundation*	*Consolidated Total*
Assets				
Current Assets:				
Cash and cash equivalents	$ 395,371	$ 611	$ 1,203	$ 397,185
Accounts and interest receivable	82,085	10		82,095
Current portion of pledges receivable	110,191			110,191
Prepaid expenses and deposits	75,209	180		75,389
Total Current Assets	**662,856**	**801**	**1,203**	**664,860**
Pledges receivable, net of current portion			178,482	178,482
Property and equipment, net	809,141			809,141
Investment in Kreielsheimer Place		14,481,609		14,481,609
Investments	26,053		1,991,624	2,017,677
Interorganization receivables/payables	19,161	(19,161)		
Total Assets	**$ 1,517,211**	**$ 14,463,249**	**$ 2,171,309**	**$ 18,151,769**
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable	$ 383,858	$ -	$ -	$ 383,858
Accrued expenses	228,554			228,554
Current portion of deferred revenue	22,915			22,915
Advance ticket sales	949,457			949,457
Current portion of notes payable	260,000			260,000
Total Current Liabilities	**1,844,784**			**1,844,784**
Line of credit	1,557,845			1,557,845
Notes payable, net of current portion	145,635			145,635
Deferred revenue, net of current portion	549,937			549,937
Total Liabilities	**4,098,201**			**4,098,201**
Net Assets:				
Unrestricted	(2,691,181)	14,463,249	545	11,772,613
Temporarily restricted	110,191			110,191
Permanently restricted			2,170,764	2,170,764
Total Net Assets	**(2,580,990)**	**14,463,249**	**2,171,309**	**14,053,568**
Total Liabilities and Net Assets	**$ 1,517,211**	**$ 14,463,249**	**$ 2,171,309**	**$ 18,151,769**

See independent auditors' report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2012

	ACT	ETC	Foundation	Eliminating Entries	Consolidated Total
Unrestricted Activities					
Revenue and Support:					
Subscriptions and single tickets	$ 2,548,587	$ -	$ -	$ -	$ 2,548,587
Contribution revenue	2,318,591			(1,935)	2,316,656
Contributions and investment income released from restriction	100,531		2,507		103,038
Memberships	236,128				236,128
In-kind contributions	229,696				229,696
Interest	93				93
Other revenue	488,125				488,125
Total Revenue and Support	**5,921,751**		**2,507**	**(1,935)**	**5,922,323**
Expenses:					
Artistic and production	3,928,415		1,935	(1,935)	3,928,415
Audience development and services	1,324,931				1,324,931
Development	681,261				681,261
Administration	931,814	131,969	572		1,064,355
Total Expenses	**6,866,421**	**131,969**	**2,507**	**(1,935)**	**6,998,962**
Change in Unrestricted Net Assets	**(944,670)**	**(131,969)**			**(1,076,639)**
Temporarily Restricted Activities					
Contributions	245,762				245,762
Endowment investment income			17,058		17,058
Contributions and investment income released from restriction	(100,531)		(2,507)		(103,038)
Change in Temporarily Restricted Net Assets	**145,231**		**14,551**		**159,782**
Permanently Restricted Activities					
Endowment contributions			71,519		71,519
Change in Permanently Restricted Net Assets			**71,519**		**71,519**
Total Change in Net Assets	**(799,439)**	**(131,969)**	**86,070**		**(845,338)**
Net assets, beginning of year	(2,580,990)	14,463,249	2,171,309		14,053,568
Net Assets, End of Year	**$(3,380,429)**	**$14,331,280**	**$2,257,379**	**$ -**	**$13,208,230**

See independent auditors' report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2011

	ACT	*ETC*	*Foundation*	*Eliminating Entries*	*Consolidated Total*
Unrestricted Activities					
Revenue and Support:					
Subscriptions and single tickets	$ 2,387,507	$ -	$ -	$ -	$ 2,387,507
Contribution revenue	3,242,237			(4,402)	3,237,835
Contributions and investment income released from restriction			4,838		4,838
Memberships	143,144				143,144
In-kind contributions	326,413				326,413
Other revenue	892,495	(400,974)			491,521
Total Revenue and Support	**6,991,796**	**(400,974)**	**4,838**	**(4,402)**	**6,591,258**
Expenses:					
Artistic and production	4,094,235		4,402	(4,402)	4,094,235
Audience development and services	1,483,234				1,483,234
Development	575,236				575,236
Administration	833,362	44,048	290		877,700
Total Expenses	**6,986,067**	**44,048**	**4,692**	**(4,402)**	**7,030,405**
Change in Unrestricted Net Assets	**5,729**	**(445,022)**	**146**		**(439,147)**
Temporarily Restricted Activities					
Contributions	2,675				2,675
Endowment investment income			4,838		4,838
Contributions and investment income released from restriction			(4,838)		(4,838)
Change in Temporarily Restricted Net Assets	**2,675**				**2,675**
Permanently Restricted Activities					
Endowment contributions			3,655		3,655
Change in Permanently Restricted Net Assets			**3,655**		**3,655**
Total Change in Net Assets	**8,404**	**(445,022)**	**3,801**		**(432,817)**
Net assets, beginning of year	(2,589,394)	14,908,271	2,167,508		14,486,385
Net Assets, End of Year	**$(2,580,990)**	**$14,463,249**	**$2,171,309**	**$ -**	**$14,053,568**

See independent auditors' report.