

***A CONTEMPORARY THEATRE, INC.
AND AFFILIATES***

Consolidated Financial Statements

For the Years Ended December 31, 2013 and 2012

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Independent Auditor's Report***Board of Directors
A Contemporary Theatre, Inc. and Affiliates
Seattle, Washington***

We have audited the accompanying consolidated financial statements of A Contemporary Theatre, Inc. and Affiliates (collectively, the Theatre), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CLARK NUBER

Emphasis-of-Matter

Management's plans regarding the Theatre's financial condition is described in Note 10. Our opinion is not modified with respect to those matters.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 15 through 18 is presented for purposes of additional analysis and is not a required part of the 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.

Clark Nuber P.S.

Certified Public Accountants
June 20, 2014

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

*Consolidated Statements of Financial Position
December 31, 2013 and 2012*

<i>Assets</i>	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 608,291	\$ 230,314
Accounts and interest receivable	56,312	55,682
Current portion of pledges receivable	192,791	115,422
Prepaid expenses and deposits	<u>116,010</u>	<u>111,162</u>
Total Current Assets	973,404	512,580
Pledges receivable, net of current portion		269,417
Cash restricted for endowment	298,091	
Investments	1,995,868	2,037,483
Property and equipment, net	<u>14,478,717</u>	<u>15,066,020</u>
Total Assets	<u>\$ 17,746,080</u>	<u>\$ 17,885,500</u>
 <i>Liabilities and Net Assets</i>		
Current Liabilities:		
Accounts payable	\$ 182,963	\$ 437,857
Accrued expenses	199,220	227,205
Current portion of deferred revenue	22,915	22,915
Advance ticket sales	1,172,032	1,126,636
Line of credit	1,570,000	1,860,000
Current portion of notes payable	<u>290,092</u>	<u>475,635</u>
Total Current Liabilities	3,437,222	4,150,248
Notes payable, net of current portion	1,250,000	
Deferred revenue, net of current portion	<u>504,107</u>	<u>527,022</u>
Total Liabilities	5,191,329	4,677,270
Net Assets:		
Unrestricted	10,061,352	10,695,974
Temporarily restricted	200,207	269,973
Permanently restricted	<u>2,293,192</u>	<u>2,242,283</u>
Total Net Assets	<u>12,554,751</u>	<u>13,208,230</u>
Total Liabilities and Net Assets	<u>\$ 17,746,080</u>	<u>\$ 17,885,500</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidated Statements of Unrestricted Activities
For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Revenue and Support:		
Subscriptions and single tickets	\$ 2,523,876	\$ 2,548,587
Contribution revenue	1,922,625	2,316,656
Contributions and investment income released from restriction	145,040	103,038
Memberships	247,688	236,128
In-kind contributions	321,810	229,696
Other revenue	559,444	488,218
	<u>5,720,483</u>	<u>5,922,323</u>
Total Revenue and Support	5,720,483	5,922,323
Expenses:		
Artistic and production	3,095,415	3,817,733
Audience development and services	1,125,906	1,324,931
Development	542,799	681,261
Administration	980,116	938,621
	<u>5,744,236</u>	<u>6,762,546</u>
Total Expenses	5,744,236	6,762,546
Change in Unrestricted Net Assets Before Depreciation	(23,753)	(840,223)
Depreciation	610,869	236,416
	<u>610,869</u>	<u>236,416</u>
Change in Unrestricted Net Assets	\$ (634,622)	\$ (1,076,639)

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<i>Unrestricted Activities</i>		
Revenue and support	\$ 5,575,443	\$ 5,819,285
Contributions and investment income released from restriction	145,040	103,038
Expenses	<u>(6,355,105)</u>	<u>(6,998,962)</u>
Change in Unrestricted Net Assets	(634,622)	(1,076,639)
<i>Temporarily Restricted Activities</i>		
Contributions	73,135	245,762
Endowment investment income	2,139	17,058
Contributions and investment income released from restriction	<u>(145,040)</u>	<u>(103,038)</u>
Change in Temporarily Restricted Net Assets	(69,766)	159,782
<i>Permanently Restricted Activities</i>		
Endowment contributions	<u>50,909</u>	<u>71,519</u>
Change in Permanently Restricted Net Assets	50,909	71,519
Total Change in Net Assets	(653,479)	(845,338)
Net assets, beginning of year	<u>13,208,230</u>	<u>14,053,568</u>
Net Assets, End of Year	<u>\$ 12,554,751</u>	<u>\$ 13,208,230</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidated Statements of Cash Flows
For the Year Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (653,479)	\$ (845,338)
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Depreciation	610,869	236,416
Loss on disposal of property and equipment		6,363
Forgiveness of notes payable	(194,122)	(200,000)
Accrued interest on investments		(19,806)
Cash (used) provided by changes in operating assets and liabilities:		
Accounts and interest receivable	(630)	26,413
Pledges receivable	(57,952)	(96,166)
Prepaid expenses and deposits	(4,848)	(35,773)
Accounts payable	(254,894)	53,999
Accrued expenses	(27,985)	9,491
Advance ticket sales	45,396	166,339
Deferred revenue	(22,915)	(22,915)
Net Cash Used in Operating Activities	(560,560)	(720,977)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(23,566)	(18,049)
Increase in cash restricted for endowment	(298,091)	
Proceeds from sale of investments	45,330	
Purchase of investments	(3,715)	
Net Cash Provided by (Used in) Investing Activities	(280,042)	(18,049)
Cash Flows from Financing Activities:		
Collection of pledges restricted for endowment	250,000	
Net line of credit activity	(290,000)	302,155
Proceeds from notes payable	1,258,579	370,000
Payments on notes payable		(100,000)
Net Cash Provided by Financing Activities	1,218,579	572,155
Net Change in Cash and Cash Equivalents	377,977	(166,871)
Cash and cash equivalents, beginning of year	230,314	397,185
Cash and Cash Equivalents, End of Year	\$ 608,291	\$ 230,314
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 120,366	\$ 78,807

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

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, 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 accounting principles generally accepted in the United States of America (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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

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 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, 2013 and 2012.

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. Investments in exchange traded funds are carried at fair value. 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. For the years ended December 31, 2013 and 2012, donated services and materials equaled \$321,810 and \$229,696, 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 GAAP and, accordingly, is not reflected in the accompanying consolidated financial statements.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 1 - Continued

Advertising - The Theatre expenses advertising costs as they are incurred. Total advertising expense for the years ended December 31, 2013 and 2012, was \$191,186 and \$234,078, 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 Theatre 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 below. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

	<u>2013</u>	<u>2012</u>
Artistic and production	\$ 3,692,134	\$ 4,050,612
Audience development and services	1,125,906	1,324,931
Development	542,799	681,261
Administration	994,266	942,158
Total Functional Expenses	<u>\$ 6,355,105</u>	<u>\$ 6,998,962</u>

Reclassifications - Certain accounts in the 2012 consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the 2013 consolidated financial statements. These reclassifications had no effect on total assets, total liabilities, net assets or change in net assets reported for 2012.

Subsequent Events - The Theatre has evaluated subsequent events through June 20, 2014, 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:

	<u>2013</u>	<u>2012</u>
Receivables due in less than one year	\$ 192,791	\$ 365,422
Receivables due in two to five years		20,000
Less present value discount (3%)		(583)
Total Pledges Receivable, Net	<u>\$ 192,791</u>	<u>\$ 384,839</u>

Included in receivables due in less than one year at December 31, 2012, is a \$250,000 pledge receivable from a single donor that is restricted for the endowment. This pledge 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. This pledge was collected in 2013.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 3 - Investments

Investments consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Certificates of deposit	\$ 1,994,295	\$ 1,994,295
Exchange traded funds	1,573	
Series I bonds		43,188
	<u><u>\$ 1,995,868</u></u>	<u><u>\$ 2,037,483</u></u>

Certificates of deposit and series I bonds are valued at cost plus accrued interest. Exchange traded funds are valued at the closing price reported on the active market on which the securities are traded, which are considered level 1 inputs according to the GAAP framework for measuring fair value. Assets classified as level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets.

Investment return for the years ended December 31, 2013 and 2012, totaled \$2,199 and \$17,151, respectively, and consisted of interest income.

A certificate of deposit totaling \$1,961,624 at December 31, 2013 and 2012, is pledged as collateral for the line of credit described in Note 6. A certificate of deposit totaling \$32,671 at December 31, 2013 and 2012, 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:

	<u>2013</u>	<u>2012</u>
Building and improvements	\$ 12,702,141	\$ 12,678,574
Land	2,411,188	2,411,188
Theatre equipment	1,165,765	1,165,765
Theatre furnishings and lights	179,795	179,795
Office and other equipment	714,747	714,747
Box office and development software	392,360	392,360
Automobile	10,000	10,000
	<u>17,575,996</u>	<u>17,552,429</u>
Less accumulated depreciation	<u>(3,097,279)</u>	<u>(2,486,409)</u>
Total Property and Equipment, Net	<u><u>\$ 14,478,717</u></u>	<u><u>\$ 15,066,020</u></u>

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 4 - Continued

Depreciation and amortization expense for the years ended December 31, 2013 and 2012, was \$610,869 and \$236,416, respectively.

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 - 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 6 - Line of Credit and Notes Payable

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

	<u>2013</u>	<u>2012</u>
Revolving line of credit secured by investments, prime interest rate less 0.25% (not less than 3.75%), due October 31, 2014.	\$ 1,570,000	\$ 1,860,000
Note payable to a trust, secured by the real property of Eagles Theatre Centre, 8% interest rate, monthly payments of interest of \$8,333.33, due October 31, 2015.	1,250,000	
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. The final payment was made on January 2, 2014.	95,635	95,635
Note payable from an individual, unsecured, 4% interest rate, due December 31, 2014.	10,000	10,000
Related party notes payable, unsecured, 0% interest rate, due December 31, 2014.	<u>184,457</u>	<u>370,000</u>
Total debt	3,110,092	2,335,635
Less current portion	<u>(1,860,092)</u>	<u>(2,335,635)</u>
Line of Credit and Notes Payable, Net of Current Portion	<u>\$ 1,250,000</u>	<u>\$ -</u>

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 6 - Continued

Total interest expense for the years ended December 31, 2013 and 2012, was \$120,366 and \$78,807, respectively.

The related party notes are payable to executives of the Theatre. Notes payable to related parties and other individuals of \$194,122 and \$200,000 were forgiven during the years ended December 31, 2013 and 2012, respectively.

Subsequent to year end, the Theatre entered into additional loan agreements with related parties totaling \$250,000, 8% interest rates, due December 31, 2014.

Note 7 - 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 2013 or 2012.

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Major gifts campaign	\$ 30,872	\$ 160,000
HVAC	25,000	25,000
Unappropriated endowment income	16,544	14,551
Pledges receivable	127,791	70,422
	<u>\$ 200,207</u>	<u>\$ 269,973</u>

Note 9 - 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 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 donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, 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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012**

Note 9 - Continued

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.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2012	\$ 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
Interest and dividends		2,139		2,139
Contributions			50,909	50,909
Appropriation of endowment for expenditure	146	(146)		
Other Foundation expenses	(691)			(691)
Endowment Net Assets, December 31, 2013	\$ -	\$ 16,544	\$ 2,293,192	\$ 2,309,736

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, 2013 or 2012.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 9 - Continued

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.

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, 2013 or 2012.

Note 10 - Financial Condition

As shown in the accompanying consolidated financial statements, the Theatre incurred net losses (change in unrestricted net assets) of \$634,622 and \$1,076,639 during the years ended December 31, 2013 and 2012, respectively. Additionally, the Theatre's current liabilities exceed its current assets by approximately \$2.46 million and \$3.6 million at December 31, 2013 and 2012, respectively. Included in current liabilities at December 31, 2013, is a line of credit with a bank of \$1.57 million that expires on October 31, 2014.

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.

SUPPLEMENTARY INFORMATION

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidating Statement of Financial Position
December 31, 2013**

	<u>ACT</u>	<u>ETC</u>	<u>Foundation</u>	<u>Consolidated Total</u>
Assets				
Current Assets:				
Cash and cash equivalents	\$ 608,110	\$ 181	\$ -	\$ 608,291
Accounts and interest receivable	56,312			56,312
Current portion of pledges receivable	192,791			192,791
Prepaid expenses and deposits	115,920	90		116,010
Total Current Assets	973,133	271		973,404
Cash restricted for endowment			298,091	298,091
Investments	34,244		1,961,624	1,995,868
Property and equipment, net	625,775	13,852,942		14,478,717
Interorganization receivables/payables	55,336	(105,357)	50,021	
Total Assets	\$ 1,688,488	\$ 13,747,856	\$ 2,309,736	\$ 17,746,080
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable	\$ 182,963	\$ -	\$ -	\$ 182,963
Accrued expenses	199,220			199,220
Current portion of deferred revenue	22,915			22,915
Advance ticket sales	1,172,032			1,172,032
Line of credit	1,570,000			1,570,000
Current portion of notes payable	290,092			290,092
Total Current Liabilities	3,437,222			3,437,222
Notes payable, net of current portion	1,250,000			1,250,000
Deferred revenue, net of current portion	504,107			504,107
Total Liabilities	5,191,329			5,191,329
Net Assets:				
Unrestricted	(3,686,504)	13,747,856		10,061,352
Temporarily restricted	183,663		16,544	200,207
Permanently restricted			2,293,192	2,293,192
Total Net Assets	(3,502,841)	13,747,856	2,309,736	12,554,751
Total Liabilities and Net Assets	\$ 1,688,488	\$ 13,747,856	\$ 2,309,736	\$ 17,746,080

See independent auditor's report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidating Statement of Financial Position
December 31, 2012**

	<u>ACT</u>	<u>ETC</u>	<u>Foundation</u>	<u>Consolidated Total</u>
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
Investments	32,671		2,004,812	2,037,483
Property and equipment, net	710,144	14,355,876		15,066,020
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	227,205			227,205
Current portion of deferred revenue	22,915			22,915
Advance ticket sales	1,126,636			1,126,636
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 auditor's report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2013**

	<u>ACT</u>	<u>ETC</u>	<u>Foundation</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
Unrestricted Activities					
Revenue and Support:					
Subscriptions and single tickets	\$ 2,523,876	\$ -	\$ -	\$ -	\$ 2,523,876
Contribution revenue	1,922,625				1,922,625
Contributions and investment income released from restriction	144,894		146		145,040
Memberships	247,688				247,688
In-kind contributions	321,810				321,810
Other revenue	559,444				559,444
Total Revenue and Support	5,720,337		146		5,720,483
Expenses:					
Artistic and production	3,080,775	14,640			3,095,415
Audience development and services	1,125,906				1,125,906
Development	542,799				542,799
Administration	913,575	65,850	691		980,116
Total Expenses	5,663,055	80,490	691		5,744,236
Change in Unrestricted Net Assets Before Depreciation	57,282	(80,490)	(545)		(23,753)
Depreciation	107,935	502,934			610,869
Change in Unrestricted Net Assets	(50,653)	(583,424)	(545)		(634,622)
Temporarily Restricted Activities					
Contributions	73,135				73,135
Endowment investment income			2,139		2,139
Contributions and investment income released from restriction	(144,894)		(146)		(145,040)
Change in Temporarily Restricted Net Assets	(71,759)		1,993		(69,766)
Permanently Restricted Activities					
Endowment contributions			50,909		50,909
Change in Permanently Restricted Net Assets			50,909		50,909
Total Change in Net Assets	(122,412)	(583,424)	52,357		(653,479)
Net assets, beginning of year	(3,380,429)	14,331,280	2,257,379		13,208,230
Net Assets, End of Year	\$ (3,502,841)	\$ 13,747,856	\$ 2,309,736	\$ -	\$ 12,554,751

See independent auditor's report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

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

	<u>ACT</u>	<u>ETC</u>	<u>Foundation</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
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
Other revenue	488,218				488,218
Total Revenue and Support	5,921,751		2,507	(1,935)	5,922,323
Expenses:					
Artistic and production	3,817,733		1,935	(1,935)	3,817,733
Audience development and services	1,324,931				1,324,931
Development	681,261				681,261
Administration	931,814	6,235	572		938,621
Total Expenses	6,755,739	6,235	2,507	(1,935)	6,762,546
Change in Unrestricted Net Assets Before Depreciation	(833,988)	(6,235)			(840,223)
Depreciation	110,682	125,734			236,416
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

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