A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information

December 31, 2011 and 2010

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
A Contemporary Theatre, Inc. and Affiliates

We have audited the accompanying consolidated balance sheets of A Contemporary Theatre, Inc. and Affiliates (the Theatre) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Theatre's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of A Contemporary Theatre, Inc. and Affiliates as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on pages 18 through 21 as of and for the years ended December 31, 2011 and 2010 is presented for purposes of additional analysis, and is not a required part of the basic 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Moss Adams LLP

Seattle, Washington
June 25, 2012

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 397,185	$ 5,479
Accounts and interest receivable	82,095	27,689
Current portion of pledges receivable	110,191	87,516
Prepaid expenses and deposits	101,442	186,106
Total current assets	690,913	306,790
Pledges receivable, net of current portion	178,482	194,244
Property and equipment, net	809,141	464,125
Investment in Kreielsheimer Place, net	14,481,609	14,907,439
Investments	1,991,624	1,991,624
	$ 18,151,769	$ 17,864,222

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Accounts payable	$ 383,858	$ 458,169
Accrued expenses	228,554	248,817
Current portion of deferred revenue	22,915	22,915
Advance ticket sales	949,457	822,283
Current portion of notes payable and related party notes payable	260,000	110,000
Total current liabilities	1,844,784	1,662,184
LONG-TERM LIABILITIES		
Line of credit and notes payable, net of current portion	1,653,480	1,122,801
Related party notes payable	50,000	20,000
Deferred revenue, net of current portion	549,937	572,852
Total long-term liabilities	2,253,417	1,715,653
Total liabilities	4,098,201	3,377,837
NET ASSETS		
Unrestricted	11,772,613	12,211,760
Temporarily restricted	110,191	107,516
Permanently restricted	2,170,764	2,167,109
Total net assets	14,053,568	14,486,385
	$ 18,151,769	$ 17,864,222

See accompanying notes.

	2011	2010
CHANGES IN UNRESTRICTED NET ASSETS		
Ticket revenue	$ 2,387,507	$ 1,818,628
Contribution revenue	3,244,912	3,109,323
In-kind contributions		
Goods	326,413	177,529
Investment return	4,838	4,956
Other revenue	557,296	246,859
	6,520,966	5,357,295
Net assets temporarily restricted	(2,675)	-
Net assets released from restrictions	-	247,071
Total support and revenue	6,518,291	5,604,366
EXPENSES		
Artistic/production	4,094,235	3,473,547
Audience development and services	1,405,865	1,192,237
Development	575,236	642,841
Administration	882,102	774,971
Total expenses	6,957,438	6,083,596
Change in unrestricted net assets	(439,147)	(479,230)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	2,675	-
Net assets released from restrictions	-	(247,071)
Change in temporarily restricted net assets	2,675	(247,071)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	3,655	3,073
Write-off of pledge deemed uncollectible	-	(50,000)
Change in permanently restricted net assets	3,655	(46,927)
CHANGE IN NET ASSETS	(432,817)	(773,228)
NET ASSETS		
Beginning of year	14,486,385	15,259,613
End of year	$ 14,053,568	$ 14,486,385

See accompanying notes.

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (432,817)	$ (773,228)
Adjustments to reconcile change in net assets to net cash from operating activities		
Non-cash items included in change in net assets		
Change in allowance for doubtful accounts	-	(6,418)
Depreciation and amortization	92,370	111,613
Loss on investment in Kreielsheimer Place	425,830	485,081
Write-off of pledge deemed uncollectible	-	50,000
Forgiveness of related party notes payable	(370,000)	(379,000)
Changes in operating assets		
Accounts and interest receivable	(54,406)	(12,651)
Pledges receivable	(6,913)	241,773
Prepaid expenses and deposits	84,664	(96,971)
Accounts payable	(74,311)	220,057
Accrued expenses	(20,263)	87,632
Deferred revenue	(22,915)	(22,915)
Advance ticket sales	127,174	126,872
Net cash from operating activities	(251,587)	31,845
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(437,386)	(255,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit and notes payable, net	530,679	10,485
Proceeds from related party notes payable, net	550,000	216,000
Net cash from financing activities	1,080,679	226,485
CHANGE IN CASH AND CASH EQUIVALENTS	391,706	2,472
CASH AND CASH EQUIVALENTS		
Beginning of year	5,479	3,007
End of year	$ 397,185	$ 5,479
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 72,083	$ 75,957

Note 1 - Financial Condition and Management's Plan

A Contemporary Theatre, Inc ("Theatre" or "ACT") incurred consolidated net losses from operations in recent years, although the producing entity ACT Theatre showed a positive increase in unrestricted net assets for the years ended December 31, 2011 and 2010. In addition the Theatre has a negative current ratio as of December 31, 2011 and 2010. The consolidated financial statements assume that the Theatre will continue as a going concern and exclude adjustments that might result from the future effects of the Theatre's asset position. The following is an account of Management's progress in improving the Theatre's financial position in 2011, and plans for continued revenue growth in 2012.

The Theatre is under steady management and has initiated and completed the first and second phases of an institutional turnaround. The Theatre is experiencing growth in contributed revenues and growth in the new Central Heating Lab line of programming.

Contributed Income - ACT is focused on diversifying funding sources with particular interest in corporate giving and appealing to younger donors. Individual giving increased by 9% from 2010. Corporate giving has shown steady growth and was up 12% from 2010. ACT is identifying new ways to appeal to our younger demographic through social media sources and by targeting appeals via email.

In early 2012 the Theatre hired a Director of Advancement to spearhead its campaign for transformation. Currently, the campaign is in the early stages but clearly has identified the needs to raise funds for reducing the debt, creating a working capital reserve, increasing the endowment fund fostering specific artistic goals to enhance the Theatre's mission. Planning for this campaign is in process and is expected to be launched publically in August of 2012.

Ticket Revenue - 2011 was a year of growth for ACT Theatre's ticket sales. A major development was created through a co-production partnership with the 5th Avenue Theatre, *Vanities: A New Musical*. This allowed for ACT Theatre to offer a six-play mainstage season subscription – an increase of one show more than 2010. Single ticket revenue generated from the musical co-production was split 79%/21% with the 5th Avenue Theatre. The partnership will be continued annually as it was successful for both organizations.

ACT Theatre saw positive movement in subscriptions in 2011. Subscription orders increased by 589 packages and $177,839 over the previous year for a total of 6,092 units and $1,099,447 in revenue.

Outside of the musical co-production, ACT Theatre also saw an increase in single tickets across the board for the mainstage season. There was a $193,900 increase over 2010 revenues. The final three shows of the season all surpassed their goals.

A Christmas Carol exceeded its goal at the end of the year by $55,500. This was an $8,000 increase over 2010's run of the holiday show. It brought in over $640,000.

ACTPass memberships continue to grow at a steady pace. At the end of 2011 ACT had 1,192 members. 794 were new members and 398 were subscribers who added on an ACTPass to their package in order to have access to all other ACT Theatre programming. $153,873 was generated through membership dues.

Note 1 - Financial Condition and Management's Plan (Continued)

The Central Heating Lab performances resulted in $176,238 from 13,029 seats sold. Central Heating Lab offerings are programmed around the space available in the building.

Debt Restructuring - The Theatre is restructuring its existing Line of Credit to extend the terms available for borrowing. This will enable the Theatre to meet their cash flow needs until the campaign for transformation begins generating the expected revenue.

The ability of the Theatre to continue as a going concern is dependent upon the success of management's plan outlined above.

Note 2 - Operations and Summary of Significant Accounting Policies

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

Eagles Theatre Centre (ETC), a separate Washington not-for-profit 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. ETC is owned 100% by the Theatre.

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

Principles of Consolidation - The ACT Theatre, ETC, and the Foundation have some common board members and common management. Accordingly, the results of the ACT Theatre, ETC, and the Foundation have been consolidated for the years ended December 31, 2011 and 2010. For the purposes of these consolidated financial statements, the term "Theatre" is used to describe the consolidated results of the ACT Theatre, ETC, and the Foundation. All significant intercompany transactions and accounts have been eliminated.

Basis of Accounting - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation - The Theatre reports its consolidated financial position and activities in conformity with accounting principles generally accepted in the United States of America (GAAP). The Theatre reports its consolidated financial position and activities according to three classes of net assets, depending on the existence and nature of donor restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not subject to donor-imposed restrictions.

Note 2 - Operations and Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets contain donor-imposed restrictions that require the Theatre to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the Theatre.

Permanently restricted net assets contain support in the form of endowment or sustaining funds. In accordance with purposes established by donors, the Theatre is permitted to use or expend part or all of the investment return derived for either specified or unspecified purposes. Such investment return is recognized as a change in unrestricted or temporarily restricted net assets based on donor stipulations.

Investments - Investments are carried at fair value which is determined using quoted market prices. Realized and unrealized gains and losses are reflected in the statement of activities. Interest and dividends are included in investment return as earned (see Note 3).

Endowment - The Theatre has an endowment which consists of a certificate of deposit held with a financial institution and held-to-maturity investments in Series I bonds as of December 31, 2011 and 2010. Cash invested for endowment is primarily set aside for permanently restricted net assets. In accordance with GAAP and the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Theatre has properly classified net assets based on donor restricted endowment funds and included all required disclosures about endowment funds. The Theatre's endowment fund consists of one individual fund which only includes donor-restricted endowment funds. In accordance with GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. As required by UPMIFA, for each donor-restricted endowment that doesn't state otherwise, the Theatre has classified the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the organization (see Note 11).

Income Taxes - Each of the Theatre entities is a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, and accordingly, is generally exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code. The Theatre did not incur unrelated business income tax for the years ended December 31, 2011 and 2010. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

The Theatre follows the provisions of authoritative guidance relating to accounting for uncertain tax positions. The Theatre recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Theatre recognizes interest and penalties related to income tax matters in income tax expense. As of December 31, 2011 and 2010, the Theatre had no uncertain tax positions requiring accrual.

Note 2 - Operations and Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents - For purposes of the consolidated financial statements, the Theatre considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Prepaid Expenses and Deposits - The Theatre is required by union agreements to hold funds to cover the compensation of the actors in case the Theatre closes. The amount of these required separately held funds included in prepaid expenses and deposits was $26,000 as of December 31, 2011 and 2010.

Pledges Receivable and Contributions - Contributions are recognized when the donor makes a promise to give (pledge) to the Theatre that is, in substance, unconditional. Contributions of non-cash assets are recognized at their estimated fair market value on the date of contribution. Pledges are recorded based on written commitments from donors. 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 the rate a market participant would demand. Amortization of the discounts is included in contribution revenue.

Conditional promises to give are not included as support 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, 2011 and 2010.

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.

Property and Equipment - Property and equipment are recorded at cost if purchased or fair value if contributed. Depreciation is calculated on a straight-line basis over the respective assets estimated useful lives ranging from 5 to 20 years. Maintenance and repairs are charged to expenses as incurred.

Deferred Revenue - Deferred revenue represents prepaid funds for the use of Kreielsheimer Place. The prepaid funds are amortized over the life of the agreement and are included in operating revenue.

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.

Note 2 - Operations and Summary of Significant Accounting Policies (Continued)

Advertising Costs - Costs incurred for advertising are expensed as incurred and were approximately $432,000 and $326,000 for the years ended December 31, 2011 and 2010, respectively.

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, 2011 and 2010, donated services and materials approximated $326,000 and $177,000, 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.

Expense Allocation - The costs of providing the various programs and other activities of the Theatre have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the various programs and supporting services.

Subsequent Events - Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Theatre recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Theatre's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are available to be issued. The Theatre has evaluated subsequent events through June 25, 2012, which is the date the consolidated financial statements were available to be issued. See Note 6 for subsequent event information related to the acquisition of the building by the ETC.

Note 3 - Fair Value Measurement

Fair Value of Assets and Liabilities - In accordance with GAAP, there are three levels of inputs that may be used to measure fair value.

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Note 3 - Fair Value Measurement (Continued)

Investments held at December 31 were as follows:

	2011	2010
Certificate of deposit	$ 1,961,624	$ 1,961,624
Series I bonds	30,000	30,000
	$ 1,991,624	$ 1,991,624

All investments are categorized as Level 2 within the fair value hierarchy.

For the years ended December 31, investment return consisted of the following:

	2011	2010
Interest and dividends	$ 4,838	$ 4,956

Investments are exposed to various risks such as interest rate and credit risks. Due to the level of risk associated with investments, and the level of uncertainty related to changes in the value of the investments, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the consolidated financial statements.

Note 4 - Pledges Receivable

Pledges receivable consist of the following at December 31:

	2011	2010
Less than one year	$ 110,191	$ 87,516
Less allowance for uncollectible pledges	-	-
	110,191	87,516
One year to five years	250,000	270,000
Less unamortized discount to present value (3% in 2011 and 2010)	(71,518)	(75,756)
	178,482	194,244
	$ 288,673	$ 281,760

Pledges receivable of approximately $5,000 and $4,000 are due from board members at December 31, 2011 and 2010, respectively.

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31:

	2011	2010
Building improvements	$ 608,106	$ 308,452
Theatre equipment	1,151,687	1,020,528
Theatre furnishings and lights	179,795	179,795
Office and other equipment	710,823	680,809
Tessitura project	392,360	382,800
Automobile	10,000	10,000
Construction in progress	6,363	38,891
	3,059,134	2,621,275
Less accumulated depreciation and amortization	2,249,993	2,157,150
	$ 809,141	$ 464,125

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was approximately $92,000 and $112,000, respectively.

Note 6 - 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 the 44 low-income housing units (the Housing Unit). ETC and EA are general partners in the partnership, Eagles Auditorium Limited Partnership (EALP), and ETC is the managing partner. ETC has a 0.85% interest in EALP. Notwithstanding the nominal percentage interest of ETC in EALP, ETC has a substantial capital interest in EALP, representing approximately 89% of the total capital interests of all the partners in EALP based on the relative value of the partners' capital account balances in EALP as of December 31, 2011 and 2010. ETC uses the equity method to account for its investment in EALP.

In connection with the Partnership Agreement, the Theatre has entered into a 20-year lease of the Theatre Unit with EALP. The annual lease payments are $232,425 per annum plus certain additional maintenance costs. Also, as part of the Partnership Agreement, the Theatre earned a development fee for developing and assisting in the renovation of the Kreielsheimer Place, of which approximately $2.9 million was receivable as of December 31, 2011 and 2010. Interest accrues on the unpaid development fee payable by EALP at 8% per annum, which is approximately equal to the future annual lease payments. The interest and lease expense have been netted in the accompanying consolidated financial statements.

Note 6 - Investment in Kreielshiemer Place (Continued)

The Partnership Agreement states that at any time between 15 and 20 years after the date that the Theatre Unit was placed in service (the Option/Right of First Refusal Period), ETC has the option or, alternatively, the right of first refusal to purchase the Theatre Unit. EA has the same option and right of first refusal with regard to the purchase of the Housing Unit. In 2011, both ETC and EA exercised their options to purchase their respective units. On November 30, 2011, the limited partners in the EALP sold their interests in the EALP to BH, giving BH a 99% general partnership ownership interest with EA and ETC preserving their existing .05% interests.

Effective November 30 , 2011 a withdrawal agreement was entered into by EA, BH, ETC and EALP. EA and BH terminated their participation as limited partner and general partner. 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. As of December 31, 2011, EALP was in the process of completing the transfer of the Theatre Unit to ETC, which is expected to occur during 2012, at which time EALP will be legally terminated.

EALP was dissolved for federal tax purposes and filed its final tax return for the period ended November 30, 2011.

The lease agreement between ACT and EALP was terminated effective December 1, 2011. The interest on the deferred development note between ACT Theatre and EALP changed to 0% as of December 1, 2011. The deferred development note was converted into investment of ETC along with the building assets remaining in EALP that will be distributed to ETC upon title transfer in 2012.

ETC's out-of-pocket costs for the purchase of the Theatre Unit during 2011 were approximately $19,000.

Investment in Kreielsheimer Place includes the following amounts at December 31:

	2011	2010
Investment in EALP	$ 20,163,146	$ 17,263,588
Accumulated loss	(5,799,601)	(5,398,627)
Net investment in EALP	14,363,545	11,864,961
Project administration costs, net of accumulated amortization of $379,000 in 2011 and $354,000 in 2010	118,064	142,920
Development fee receivable	-	2,899,558
	$ 14,481,609	$ 14,907,439

Amortization expense for the year ended December 31, 2011 and 2010 was approximately $25,000.

Note 6 - Investment in Kreielshiemer Place (Continued)

The summarized unaudited balance sheet and unaudited statement of activities for EALP as of December 31, 2011 and 2010 is as follows:

BALANCE SHEET

	2011	2010
ASSETS		
Cash and cash equivalents	$ -	$ 319,896
Accounts receivable	14,488	18,613
Other current assets	-	18,359
Property, plant, and equipment, net	14,341,971	16,179,367
Land	7,086	8,858
Intangible assets	-	14,545
Other assets	-	57,614
	$ 14,363,545	$ 16,617,252
LIABILITIES AND PARTNER'S CAPITAL		
Accounts payable	$ -	$ 1,717
Other current liabilities	-	6,768
All nonrecourse loans	-	517,823
Development fee payable	-	2,899,558
Partner's capital accounts	14,363,545	13,191,386
	$ 14,363,545	$ 16,617,252

STATEMENT OF ACTIVITIES

	2011	2010
REVENUE	$ 535,535	$ 592,612
OPERATING EXPENSES	(493,772)	(506,191)
DEPRECIATION	(548,750)	(627,245)
NET LOSS	$ (506,987)	$ (540,824)

Note 7 - 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 the next 40 years. This is being amortized over the term of the obligation on a straight-line basis.

Note 8 - Long-Term Debt

Long-term debt consists of the following as of December 31:

	2011	2010
Note payable to a financial institution, unsecured, guaranteed by a board member, prime interest rate (not less than 4%), principal and interest due annually through December 31, 2013.	$ 195,635	$ 295,636
Revolving line of credit, secured by endowment, prime interest rate minus 0.25% (not less than 3.75%), due April 30, 2012 and extended to June 30, 2012.	1,557,845	927,165
Related party note payable, unsecured, 4% interest rate, due December 31, 2012.	160,000	10,000
Related party note payable, unsecured, 4% interest rate, due December 31, 2012.	50,000	20,000
Total debt	1,963,480	1,252,801
Less current portion	(260,000)	(110,000)
Long-term debt, net of current portion	$ 1,703,480	$ 1,142,801

Total interest expense for the years ended December 31, 2011 and 2010 was $72,083 and $75,957, respectively. Related party notes payable of $370,000 and $379,000 were forgiven during the years ended December 31, 2011 and 2010, respectively.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2011 are as follows:

Year	Related Party	Other	Total
2012	$ 160,000	$ 100,000	$ 260,000
2013	50,000	1,653,480	1,703,480
	$ 210,000	$ 1,753,480	$ 1,963,480

Subsequent to December 31, 2011, ACT entered into a modification agreement for the revolving line of credit that was previously due April 30, 2012. This amendment extended the maturity date of the line of credit to June 30, 2012. The Theatre is in the process of restructuring revolving line of credit to extend maturity date to June 30, 2013, as such this debt is classified as long-term as of December 31, 2011.

Note 9 - 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 2011 or 2010.

Note 10 - Concentrations

Credit Risk - 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 its cash investments.

Pledges receivable are primarily from individuals and businesses located in the greater Seattle area. Collateral is generally not required on these assets. The Theatre has not experienced a history of significant credit-related losses.

Note 11 - Donor-Restricted Funds

Interpretation of Relevant Law - The Board of Trustees of the Theatre has interpreted the enacted version of UPMIFA for Washington State that was effective as of July 1, 2009 and determined that 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 is appropriate. 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, as applicable, 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 UPMIFA. In accordance with UPMIFA, the Theatre considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the organization and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Theatre.
7. The investment policies of the Theatre.

Note 11 - Donor-Restricted Funds (Continued)

Endowment net assets consist of the following at December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ -	$ 2,170,764	$ 2,170,764
Accumulated net revenue on donor-restricted funds	545	-	-	545
Theatre endowment net assets	$ 545	$ -	$ 2,170,764	$ 2,171,309

Endowment net assets consist of the following at December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ -	$ 2,167,109	$ 2,167,109
Accumulated net revenue on donor-restricted funds	398	-	-	398
Theatre endowment net assets	$ 398	$ -	$ 2,167,109	$ 2,167,507

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2011	$ 398	$ -	$ 2,167,109	$ 2,167,507
Investment return	-	4,838	-	4,838
Distributions to Theatre	(4,402)	-	-	(4,402)
Other expenses	(289)	-	-	(289)
Contributions	-	-	3,655	3,655
Released to unrestricted net assets	4,838	(4,838)	-	-
Total change in endowment net assets	147	-	3,655	3,802
Total endowment net assets, December 31, 2011	$ 545	$ -	$ 2,170,764	$ 2,171,309

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2010	$ 219	$ -	$ 2,214,036	$ 2,214,255
Investment return	-	4,956	-	4,956
Distributions to Theatre	(4,630)	-	-	(4,630)
Other expenses	(147)	-	-	(147)
Contributions	-	-	3,073	3,073
Write-off of pledge deemed uncollectible	-	-	(50,000)	(50,000)
Released to unrestricted net assets	4,956	(4,956)	-	-
Total change in endowment net assets	179	-	(46,927)	(46,748)
Total endowment net assets, December 31, 2010	$ 398	$ -	$ 2,167,109	$ 2,167,507

Note 11 - Donor-Restricted Funds (Continued)

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 requires the Theatre to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature reported in total net assets as of December 31, 2011 or 2010.

Return Objectives and Risk Parameters - The Theatre has adopted conservative 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 organization 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 Foundation 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, 2011 or 2010.

SUPPLEMENTARY INFORMATION

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2011

ASSETS	A Contemporary Theatre, Inc.	Eagles Theatre Centre	A Contemporary Theatre Foundation	Eliminating Entries	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$ 395,371	$ 611	$ 1,203	$ -	$ 397,185
Accounts and interest receivable	101,246	10	-	(19,161)	82,095
Current portion of pledges receivable	110,191	-	-	-	110,191
Prepaid expenses and deposits	101,262	180	-	-	101,442
Total current assets	708,070	801	1,203	(19,161)	690,913
Pledges receivable, net	-	-	178,482	-	178,482
Property and equipment, net	809,141	-	-	-	809,141
Investment in Kreielsheimer Place, net	-	14,481,609	-	-	14,481,609
Endowment	-	-	1,991,624	-	1,991,624
	$ 1,517,211	$ 14,482,410	$ 2,171,309	$ (19,161)	$ 18,151,769
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	$ 383,858	$ 19,161	$ -	$ (19,161)	$ 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 promissory note and related party note payable	260,000	-	-	-	260,000
Total current liabilities	1,844,784	19,161	-	(19,161)	1,844,784
LONG-TERM LIABILITIES					
Line of credit and promissory note, net of current portion	1,653,480	-	-	-	1,653,480
Related party note payable	50,000	-	-	-	50,000
Deferred revenue, net of current portion	549,937	-	-	-	549,937
Total long-term liabilities	2,253,417	-	-	-	2,253,417
Total liabilities	4,098,201	19,161	-	(19,161)	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
	$ 1,517,211	$ 14,482,410	$ 2,171,309	$ (19,161)	$ 18,151,769

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2010

ASSETS	A Contemporary Theatre, Inc.	Eagles Theatre Centre	A Contemporary Theatre Foundation	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	$ 3,600	$ 778	$ 1,101	$ 5,479
Accounts and interest receivable	27,689	-	-	27,689
Current portion of pledges receivable	87,516	-	-	87,516
Prepaid expenses and deposits	186,016	90	-	186,106
Total current assets	304,821	868	1,101	306,790
Pledges receivable, net	19,417	-	174,827	194,244
Property and equipment, net	464,125	-	-	464,125
Investment in Kreielsheimer Place, net	-	14,907,439	-	14,907,439
Endowment	-	-	1,991,624	1,991,624
	$ 788,363	$ 14,908,307	$ 2,167,552	$ 17,864,222
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 458,089	$ 36	$ 44	$ 458,169
Accrued expenses	248,817	-	-	248,817
Current portion of deferred revenue	22,915	-	-	22,915
Advance ticket sales	822,283	-	-	822,283
Current portion of promissory note and related party note payable	110,000	-	-	110,000
Total current liabilities	1,662,104	36	44	1,662,184
LONG-TERM LIABILITIES				
Line of credit and promissory note, net of current portion	1,122,801	-	-	1,122,801
Related party note payable	20,000	-	-	20,000
Deferred revenue, net of current portion	572,852	-	-	572,852
Total long-term liabilities	1,715,653	-	-	1,715,653
Total liabilities	3,377,757	36	44	3,377,837
NET ASSETS				
Unrestricted	(2,696,910)	14,908,271	399	12,211,760
Temporarily restricted	107,516	-	-	107,516
Permanently restricted	-	-	2,167,109	2,167,109
Total net assets	(2,589,394)	14,908,271	2,167,508	14,486,385
	$ 788,363	$ 14,908,307	$ 2,167,552	$ 17,864,222

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

	A Contemporary Theatre, Inc.	Eagles Theatre Centre	A Contemporary Theatre Foundation	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS				
Ticket revenue	2,387,507	$ -	$ -	$ 2,387,507
Contribution revenue	3,244,912	-	-	3,244,912
In-kind contributions				
Goods	326,413	-	-	326,413
Investment return	-	-	4,838	4,838
Other revenue (expense)	958,270	(400,974)	-	557,296
	6,917,102	(400,974)	4,838	6,520,966
Net assets temporarily restricted	(2,675)	-	-	(2,675)
Total support and revenue	6,914,427	(400,974)	4,838	6,518,291
EXPENSES				
Artistic/production	4,094,235	-	-	4,094,235
Audience development and services	1,405,865	-	-	1,405,865
Development	575,236	-	-	575,236
Administration	833,362	44,048	4,692	882,102
Total expenses	6,908,698	44,048	4,692	6,957,438
Change in unrestricted net assets	5,729	(445,022)	146	(439,147)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Contributions	2,675	-	-	2,675
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS				
Contributions	-	-	3,655	3,655
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
End of year	$ (2,580,990)	$ 14,463,249	$ 2,171,309	$ 14,053,568

	A Contemporary Theatre, Inc.	Eagles Theatre Centre	A Contemporary Theatre Foundation	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS				
Ticket revenue	$ 1,818,628	$ -	$ -	$ 1,818,628
Contribution revenue	3,109,323	-	-	3,109,323
In-kind contributions				
Goods	177,529	-	-	177,529
Investment return	-	-	4,956	4,956
Other revenue (expense)	707,082	(460,223)	-	246,859
	5,812,562	(460,223)	4,956	5,357,295
Net assets released from restriction	247,071	-	-	247,071
Total support and revenue	6,059,633	(460,223)	4,956	5,604,366
EXPENSES				
Artistic/production	3,473,547	-	-	3,473,547
Audience development and services	1,192,237	-	-	1,192,237
Development	642,841	-	-	642,841
Administration	745,171	25,024	4,776	774,971
Total expenses	6,053,796	25,024	4,776	6,083,596
Change in unrestricted net assets	5,837	(485,247)	180	(479,230)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Net assets released from restriction	(247,071)	-	-	(247,071)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS				
Contributions	-	-	3,073	3,073
Write-off of pledge deemed uncollectible	-	-	(50,000)	(50,000)
Change in permanently restricted net assets	-	-	(46,927)	(46,927)
CHANGE IN NET ASSETS	(241,234)	(485,247)	(46,747)	(773,228)
NET ASSETS				
Beginning of year	(2,348,160)	15,393,518	2,214,255	15,259,613
End of year	$ (2,589,394)	$ 14,908,271	$ 2,167,508	$ 14,486,385