

MOSSES ADAMS

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

**Independent Auditor's Report and
Consolidated Financial Statements
with Supplemental Information**

December 31, 2009 and 2008

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Balance sheet	2
Statement of activities	3
Statement of cash flows	4
Notes to financial statements	5-18
SUPPLEMENTAL INFORMATION	
Consolidating balance sheet - December 31, 2009	19
Consolidating balance sheet - December 31, 2008	20
Consolidating statement of activities - December 31, 2009	21
Consolidating statement of activities - December 31, 2008	22

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of A Contemporary Theatre, Inc. and Affiliates (the Theatre), as of December 31, 2009 and 2008, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2009 and 2008, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Theatre will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Theatre has incurred recurring losses from operations and has a negative current ratio that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information on pages 19 through 22 as of and for the years ended December 31, 2009 and 2008 is presented for purposes of additional analysis, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.



Seattle, Washington
July 14, 2010

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2009 AND 2008

ASSETS		
	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,007	\$ 99,129
Accounts and interest receivable, net of allowance of \$0 for 2009 and \$10,623 for 2008	15,038	34,177
Current portion of pledges receivable, net	321,169	332,935
Prepaid expenses and deposits	89,135	80,280
Total current assets	428,349	546,521
Pledges receivable, net	245,946	271,994
Property and equipment, net	319,880	396,135
Investment in Kreielsheimer Place, net	15,392,520	15,897,674
Endowment	1,961,624	1,901,624
Held-to-maturity investment	30,000	30,000
	\$ 18,378,319	\$ 19,043,948
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 238,112	\$ 133,114
Accrued expenses	161,185	226,624
Current portion of deferred revenue	22,915	22,915
Advance ticket sales	695,411	799,897
Current portion of promissory note	100,000	100,000
Related party note payable	-	407,000
Total current liabilities	1,217,623	1,689,550
 LONG-TERM LIABILITIES		
Line of credit and promissory note, net of current portion	1,112,316	1,095,636
Related party note payable	193,000	-
Deferred revenue, net of current portion	595,767	618,682
Total long-term liabilities	1,901,083	1,714,318
Total liabilities	3,118,706	3,403,868
 NET ASSETS		
Unrestricted	12,690,990	13,087,184
Temporarily restricted	354,587	402,377
Permanently restricted	2,214,036	2,150,519
Total net assets	15,259,613	15,640,080
	\$ 18,378,319	\$ 19,043,948

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Ticket revenue	\$ 2,195,428	\$ 2,426,181
Contribution revenue	2,531,455	2,162,400
In-kind contributions		
Goods	210,611	136,676
Services	-	52,083
Investment return	21,521	64,013
Other revenue	325,123	348,693
	<u>5,284,138</u>	<u>5,190,046</u>
Net assets released from restriction	47,790	168,670
Total support and revenue	<u>5,331,928</u>	<u>5,358,716</u>
EXPENSES		
Artistic/production	3,424,146	3,679,686
Audience development and services	1,153,970	1,482,290
Development	367,506	596,010
Administration	782,500	829,299
Total expenses	<u>5,728,122</u>	<u>6,587,285</u>
Change in unrestricted net assets	(396,194)	(1,228,569)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restriction	(47,790)	(168,670)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>63,517</u>	<u>14,460</u>
CHANGE IN NET ASSETS	(380,467)	(1,382,779)
NET ASSETS		
Beginning of year	<u>15,640,080</u>	<u>17,022,859</u>
End of year	<u>\$ 15,259,613</u>	<u>\$ 15,640,080</u>

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (380,467)	\$ (1,382,779)
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	(10,623)	10,623
Depreciation and amortization	102,210	125,231
Loss on investment in Kreielsheimer Place	505,154	460,007
Forgiveness of related party notes payable	(214,000)	-
Changes in operating assets		
Accounts and interest receivable	29,762	(6,645)
Pledges receivable	37,814	161,967
Prepaid expenses and deposits	(8,855)	24,152
Accounts payable	104,998	(73,181)
Accrued expenses	(65,439)	(37,517)
Deferred revenue	(22,915)	(22,915)
Advance ticket sales	(104,486)	(159,162)
Net cash from operating activities	<u>(26,847)</u>	<u>(900,219)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(25,955)	(39,761)
Cash restricted for endowment	(60,000)	(14,860)
Net cash from investing activities	<u>(85,955)</u>	<u>(54,621)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit and promissory note, net	16,680	540,000
Proceeds from related party notes payable	-	407,000
Net cash from financing activities	<u>16,680</u>	<u>947,000</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(96,122)	(7,840)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>99,129</u>	<u>106,969</u>
End of year	<u>\$ 3,007</u>	<u>\$ 99,129</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 73,108</u>	<u>\$ 76,975</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Note 1 - Financial Condition and Management's Plan

A Contemporary Theatre, Inc. ("Theatre" or "ACT") has incurred net losses from operations in the past several years and has a negative current ratio. These factors raise substantial doubt about the Theatre's ability to continue as a going concern. 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 this uncertainty. The following are events that have led to the current situation and management's plan to reverse the current losses.

The Theatre is under new management and has initiated and completed the first phase of an institutional turnaround. The Theatre is experiencing growth in contributed revenues and audience engagement. The Theatre continues to offer theatre, dance, film, music and literary events to increase ticket sales revenue.

Leadership - The partnership between Artistic Director Kurt Beattie and Executive Director Carlo Scandiuzzi began in mid-2008. A mid-year projected shortfall was reduced by increased fundraising, strategic innovations, and staff-driven budget cuts. Management and the Board of Trustees are working together to focus on institutional goals.

Contributed Income - The Theatre engaged a new development department in 2009, and participation in fundraising activities increased among the upper leadership and Board of Trustees. Two challenge matches were initiated and the Theatre held its first gala in many years, exceeding the budgeted goal of \$90,000 by raising over \$170,000. By the end of the year, ACT had increased individual contributions. As a result of these efforts, the Theatre has increased overall contributed revenues in 2009.

Earned Income-Ticket Sales - The Theatre continues to experience the industry-wide phenomenon of declining subscriptions. However, the Theatre is pursuing new marketing and business initiatives. The Theatre has focused on using media outreach and social networking to increase exposure. The launch of the Monthly Membership program occurred in 2009, which offers members unlimited access to programming for a monthly fee. The Theatre's goal is to acquire 1,000 members by the end of 2010, to counteract the expected decline in subscriptions.

Earned Income-Facility Rental - Earned Revenues from rentals are trending down (\$195,000 in 2009 and \$170,000 in 2008) and expected to continue to decrease as more of the available space is utilized for active programming through the Central Heating Lab. The Theater is focusing on obtaining revenues from mission-related activities, and less from activities that do nothing to increase the base of support from patrons.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Report on the Art at ACT - The 2009 Main Stage season had a variety of performances: the inspired bickering of R. Hamilton Wright, Judd Hirsch and John Procaccino in *Below the Belt*; Anne Allgood's head-snapping display of versatility transforming from a show-stopping sequined country singer in *Das Barbecu* to an emotionally devastated cancer patient in *Rock 'n' Roll*; the sinister, seductive shimmer of Matthew Smucker's laboratory set rising out of the floor in *Jekyll & Hyde*; and debuts by eight Seattle actors appearing with us for the first time, six of them fully home grown.

The Central Heating Lab included more than 20 productions, including Maureen Whiting's dance *The Myth of Me and You*. New Century Theatre Company's (NCTC) follow up to its 2008 performance *The Adding Machine* was the production of *Orange Flower Water*, directed by Allison Narver. NCTC was awarded "Theater of the Year" and *The Adding Machine* won "Outstanding Production" at the Gregory Falls Awards in October.

As part of the strategic goal of collaboration, The Theatre's African American theater partners, The Hansberry Project, selected the ACT New Play Award and presented Marc Bamuthi Joseph's *the break/s* in the 2009 season. In 2010, The Hansberry Project is commissioning a new play to expand performances available to theatre audiences.

The New Works for the American Stage commissioning program, which launched with Steven Dietz's *Becky's New Car*, is focused on introducing commissioners to the creative process. Donors are provided the opportunity to know leading playwrights and hear their earliest drafts, watching as ideas become scripts.

The Theatre has expanded use of its real estate, offering the 7th Avenue windows to local artists who created installations about the plays in our season.

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 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, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

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.

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

Principles of Consolidation - The Theatre, ETC, and the Foundation have some common board members and common management. Accordingly, the results of the Theatre, ETC, and the Foundation have been consolidated for the years ended December 31, 2009 and 2008. For the purposes of these consolidated financial statements, the term "Theatre" is used to describe the consolidated results of the Theatre, ETC, and the Foundation. All significant intercompany transactions and accounts have been eliminated.

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.

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.

Fair Value of Assets and Liabilities - Effective January 1, 2008, the Theatre adopted changes issued by the Financial Accounting Standards Board (FASB) to the use of fair value accounting. These changes define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy was also established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The method describes 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.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments - Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities (mutual funds and common stock). If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics, or discounted cash flows. Level 2 securities include government and corporate bonds and securities, mortgage-backed securities, and real estate investment trusts. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy. All investments held by the Theatre are considered Level 1 and are included in Endowment in long-term assets on the consolidated balance sheet.

Endowment - 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. Given that the Theatre does not have board-designated endowment funds, this note provides additional disclosure associated with permanently restricted funds (donor-restricted endowment funds or 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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

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.

Endowment net assets consist of the following at December 31:

	2009	2008
Unrestricted net assets	\$ 219	\$ (374)
Temporarily restricted net assets	-	-
Permanently restricted net assets	2,214,036	2,150,519
Total endowment net assets	\$ 2,214,255	\$ 2,150,145

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Changes in endowment net assets for the year ended December 31, 2009 are as follows:

	<u>Endowment</u>
Net assets, January 1, 2009	\$ 2,150,145
Investment return	20,452
Distributions to Theatre	(19,607)
Other expenses	(252)
Contributions	63,517
Total change in net assets - Endowment	<u>64,110</u>
Total endowment net assets, December 31, 2009	<u>\$ 2,214,255</u>

Changes in endowment net assets for the year ended December 31, 2008 are as follows:

	<u>Endowment</u>
Net assets, January 1, 2008	\$ 2,134,273
Investment return	60,503
Distributions to Theatre	(58,898)
Other expenses	(193)
Contributions	14,460
Total change in net assets - Endowment	<u>15,872</u>
Total endowment net assets, December 31, 2008	<u>\$ 2,150,145</u>

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, 2009 or 2008.

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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

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, 2009 or 2008.

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.

As of December 31, 2009 and 2008, the Theatre had no uncertain tax positions requiring accrual or disclosure.

Use of Estimates - The preparation of 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 and \$37,600 as of December 31, 2009 and 2008, respectively.

Pledges Receivable - Unconditional promises to give (pledges) are recognized as revenues in the period received and classified based upon donor restrictions, if any. Promises to give over periods in excess of one year are recorded net of discounts to reflect the time value of money. Amortization of discounts is included in contribution revenue.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

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 asset estimated useful life, which ranges from 5 to 20 years. Maintenance and repairs are charged to expenses as incurred.

Endowment - Cash invested for endowment is comprised of cash set aside for permanently restricted net assets. At December 31, 2009 and 2008, return on investment for these funds was approximately \$20,000 and \$60,500, respectively and consisted of interest only.

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.

Advertising Costs - Costs incurred for advertising are expensed as incurred and were approximately \$245,000 and \$310,000 for the years ended December 31, 2009 and 2008, 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, 2009 and 2008, donated services and materials approximated \$211,000 and \$189,000, 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.

Reclassifications - Certain balances in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on the change in net assets.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

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 July 14, 2010, which is the date the consolidated financial statements were available to be issued.

Note 3 - Pledges Receivable

Pledges receivable consist of the following at December 31:

	2009	2008
Less than one year	\$ 327,587	\$ 343,778
Less allowance for uncollectible pledges	(6,418)	(10,843)
	321,169	332,935
One year to five years	327,000	358,600
Less unamortized discount to present value (3% in 2009 and 2008)	(81,054)	(86,606)
	245,946	271,994
	\$ 567,115	\$ 604,929

Pledges receivable of approximately \$83,000 and \$90,000 are due from board members at December 31, 2009 and 2008, respectively.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Note 4 - Property and Equipment

Property and equipment consists of the following at December 31:

	2009	2008
Building improvements	\$ 262,692	\$ 262,692
Theatre equipment	971,752	950,111
Theatre furnishings and lights	179,795	179,795
Office and other equipment	616,578	612,264
Tessitura project	334,600	334,600
	2,365,417	2,339,462
Less accumulated depreciation and amortization	2,045,537	1,943,327
	\$ 319,880	\$ 396,135

Depreciation and amortization expense for the years ended December 31, 2009 and 2008 was approximately \$102,000 and \$125,000, respectively.

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 the 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 85% 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, 2009 and 2008. 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, 2009 and 2008. 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 financial statements.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Note 5 - 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. It is anticipated that ETC's out-of-pocket costs for the purchase of the Theatre Unit during the Option/Right of First Refusal period will be nominal. Accordingly, management expects that ETC will be in a position to acquire the Theatre Unit in exchange for its capital interest in EALP and its allocable share of the transaction costs.

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

	<u>2009</u>	<u>2008</u>
Investment in EALP	\$ 17,263,588	\$ 17,263,588
Accumulated loss	<u>(4,938,402)</u>	<u>(4,458,104)</u>
Net investment in EALP	12,325,186	12,805,484
Project administration costs, net of accumulated amortization of \$330,000 in 2009 and \$305,000 in 2008	167,776	192,632
Development fee receivable	<u>2,899,558</u>	<u>2,899,558</u>
	<u><u>\$ 15,392,520</u></u>	<u><u>\$ 15,897,674</u></u>

Amortization expense for the years ended December 31, 2009 and 2008 was approximately \$25,000 each year.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Note 5 - Investment in Kreielshiemer Place (Continued)

The summarized unaudited balance sheet and unaudited statement of activities for Eagles Auditorium Limited Partnership as of December 31 is as follows:

BALANCE SHEET

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 315,070	\$ 387,685
Accounts receivable	21,244	17,067
Other current assets	2,736	2,822
Property, plant, and equipment, net	16,805,745	17,433,015
Land	8,858	8,858
Intangible assets	15,443	16,342
Other assets	8,027	6,916
	\$ 17,177,123	\$ 17,872,705
LIABILITIES AND PARTNER'S CAPITAL		
Accounts payable	\$ 3,698	\$ 2,130
Other current liabilities	10,312	80,721
All nonrecourse loans	531,345	543,733
Mortgages, notes, bonds payable in one year or more	2,899,558	2,899,558
Partner's capital accounts	13,732,210	14,346,563
	\$ 17,177,123	\$ 17,872,705

STATEMENT OF ACTIVITIES

	2009	2008
REVENUE	\$ 567,821	\$ 561,107
OPERATING EXPENSES	(554,903)	(530,726)
DEPRECIATION	(627,271)	(625,973)
NET LOSS	\$ (614,353)	\$ (595,592)

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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 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 7 - Long-Term Debt

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

	<u>2009</u>	<u>2008</u>
Borrowings under promissory note with 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.	\$ 395,636	\$ 495,636
Revolving line of credit, secured by endowment, prime interest rate minus 0.25% (not less than 3.75%), due April 30, 2011.	816,680	700,000
Related party notes payable, unsecured, 4% interest rate, due December 31, 2011.	<u>193,000</u>	<u>407,000</u>
Total debt	1,405,316	1,602,636
Less current portion	<u>(100,000)</u>	<u>(507,000)</u>
Long-term debt, net of current portion	<u>\$ 1,305,316</u>	<u>\$ 1,095,636</u>

Total interest expense for the years ended December 31, 2009 and 2008 was \$73,108 and \$76,975, respectively. Related party notes payable of \$214,000 was forgiven during the year ended December 31, 2009.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Note 7 - Long-Term Debt (Continued)

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2009 are as follows:

<u>Year</u>	<u>Related Party</u>	<u>Other</u>
2010	\$ -	\$ 100,000
2011	193,000	916,680
2012	-	100,000
2013	-	95,636
	<u>\$ 193,000</u>	<u>\$ 1,212,316</u>

Subsequent to year end, a modification agreement was entered into for the revolving line of credit that was previously due February 28, 2010. This amendment increased the available principal amount of the line from \$1,500,000 to \$1,700,000 and the maturity date of the loan was extended to April 30, 2011.

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 2009 or 2008.

Note 9 - 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 never 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.

SUPPLEMENTAL INFORMATION

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2009

ASSETS	A Contemporary Theatre, Inc.	Eagles Theatre Centre	A Contemporary Theatre Foundation	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,056	\$ 908	\$ 43	\$ 3,007
Accounts and interest receivable	14,204	-	834	15,038
Current portion of pledges receivable	271,169	-	50,000	321,169
Prepaid expenses and deposits	89,045	90	-	89,135
Total current assets	<u>376,474</u>	<u>998</u>	<u>50,877</u>	<u>428,349</u>
Pledges receivable, net	74,192	-	171,754	245,946
Property and equipment, net	319,880	-	-	319,880
Investment in Kreielsheimer Place, net	-	15,392,520	-	15,392,520
Endowment	-	-	1,961,624	1,961,624
Held-to-maturity investment	-	-	30,000	30,000
	<u>\$ 770,546</u>	<u>\$ 15,393,518</u>	<u>\$ 2,214,255</u>	<u>\$ 18,378,319</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 238,112	\$ -	\$ -	\$ 238,112
Accrued expenses	161,185	-	-	161,185
Current portion of deferred revenue	22,915	-	-	22,915
Advance ticket sales	695,411	-	-	695,411
Current portion of promissory note	100,000	-	-	100,000
Total current liabilities	<u>1,217,623</u>	<u>-</u>	<u>-</u>	<u>1,217,623</u>
LONG-TERM LIABILITIES				
Line of credit and promissory note	1,112,316	-	-	1,112,316
Related party note payable	193,000	-	-	193,000
Deferred revenue, net of current portion	595,767	-	-	595,767
Total long-term liabilities	<u>1,901,083</u>	<u>-</u>	<u>-</u>	<u>1,901,083</u>
Total liabilities	<u>3,118,706</u>	<u>-</u>	<u>-</u>	<u>3,118,706</u>
NET ASSETS				
Unrestricted	(2,702,747)	15,393,518	219	12,690,990
Temporarily restricted	354,587	-	-	354,587
Permanently restricted	-	-	2,214,036	2,214,036
Total net assets	<u>(2,348,160)</u>	<u>15,393,518</u>	<u>2,214,255</u>	<u>15,259,613</u>
	<u>\$ 770,546</u>	<u>\$ 15,393,518</u>	<u>\$ 2,214,255</u>	<u>\$ 18,378,319</u>

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2008

ASSETS	A Contemporary Theatre, Inc.	Eagles Theatre Centre	A Contemporary Theatre Foundation	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	\$ 97,763	\$ 1,083	\$ 283	\$ 99,129
Accounts and interest receivable	32,198	-	1,979	34,177
Current portion of pledges receivable	282,935	-	50,000	332,935
Prepaid expenses and deposits	80,190	90	-	80,280
Total current assets	<u>493,086</u>	<u>1,173</u>	<u>52,262</u>	<u>546,521</u>
Pledges receivable, net	103,757	-	168,237	271,994
Property and equipment, net	396,135	-	-	396,135
Investment in Kreielsheimer Place, net	-	15,897,674	-	15,897,674
Endowment	-	-	1,901,624	1,901,624
Held-to-maturity investment	-	-	30,000	30,000
	<u>\$ 992,978</u>	<u>\$ 15,898,847</u>	<u>\$ 2,152,123</u>	<u>\$ 19,043,948</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 131,136	\$ -	\$ 1,978	\$ 133,114
Accrued expenses	226,624	-	-	226,624
Current portion of deferred revenue	22,915	-	-	22,915
Advance ticket sales	799,897	-	-	799,897
Current portion of promissory note	100,000	-	-	100,000
Related party note payable	407,000	-	-	407,000
Total current liabilities	<u>1,687,572</u>	<u>-</u>	<u>1,978</u>	<u>1,689,550</u>
LONG-TERM LIABILITIES				
Line of credit and promissory note	1,095,636	-	-	1,095,636
Deferred revenue, net of current portion	618,682	-	-	618,682
Total long-term liabilities	<u>1,714,318</u>	<u>-</u>	<u>-</u>	<u>1,714,318</u>
Total liabilities	<u>3,401,890</u>	<u>-</u>	<u>1,978</u>	<u>3,403,868</u>
NET ASSETS				
Unrestricted	(2,811,289)	15,898,847	(374)	13,087,184
Temporarily restricted	402,377	-	-	402,377
Permanently restricted	-	-	2,150,519	2,150,519
Total net assets	<u>(2,408,912)</u>	<u>15,898,847</u>	<u>2,150,145</u>	<u>15,640,080</u>
	<u>\$ 992,978</u>	<u>\$ 15,898,847</u>	<u>\$ 2,152,123</u>	<u>\$ 19,043,948</u>

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

	A Contemporary Theatre, Inc.	Eagles Theatre Centre	A Contemporary Theatre Foundation	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS				
Ticket revenue	\$ 2,195,428	\$ -	\$ -	\$ 2,195,428
Contribution revenue	2,531,455	-	-	2,531,455
In-kind contributions				
Goods	210,611	-	-	210,611
Services	-	-	-	-
Investment return	457	612	20,452	21,521
Other revenue (expense)	806,030	(480,907)	-	325,123
	<u>5,743,981</u>	<u>(480,295)</u>	<u>20,452</u>	<u>5,284,138</u>
Net assets released from restriction	47,790	-	-	47,790
Total support and revenue	<u>5,791,771</u>	<u>(480,295)</u>	<u>20,452</u>	<u>5,331,928</u>
EXPENSES				
Artistic/production	3,424,056	90	-	3,424,146
Audience development and services	1,153,970	-	-	1,153,970
Development	367,506	-	-	367,506
Administration	737,697	24,944	19,859	782,500
Total expenses	<u>5,683,229</u>	<u>25,034</u>	<u>19,859</u>	<u>5,728,122</u>
Change in unrestricted net assets	108,542	(505,329)	593	(396,194)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Net assets released from restriction	(47,790)	-	-	(47,790)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS				
Contributions	-	-	63,517	63,517
CHANGE IN NET ASSETS	60,752	(505,329)	64,110	(380,467)
NET ASSETS				
Beginning of year	<u>(2,408,912)</u>	<u>15,898,847</u>	<u>2,150,145</u>	<u>15,640,080</u>
End of year	<u>\$ (2,348,160)</u>	<u>\$ 15,393,518</u>	<u>\$ 2,214,255</u>	<u>\$ 15,259,613</u>

A CONTEMPORARY THEATRE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008

	A Contemporary Theatre, Inc.	Eagles Theatre Centre	A Contemporary Theatre Foundation	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS				
Ticket revenue	\$ 2,426,181	\$ -	\$ -	\$ 2,426,181
Contribution revenue	2,162,400	-	-	2,162,400
In-kind contributions				
Goods	136,676	-	-	136,676
Services	52,083	-	-	52,083
Investment return	1,712	1,798	60,503	64,013
Other revenue	810,490	(461,797)	-	348,693
	<u>5,589,542</u>	<u>(459,999)</u>	<u>60,503</u>	<u>5,190,046</u>
Net assets released from restriction	168,670	-	-	168,670
Total support and revenue	<u>5,758,212</u>	<u>(459,999)</u>	<u>60,503</u>	<u>5,358,716</u>
EXPENSES				
Artistic/production	3,679,686	-	-	3,679,686
Audience development and services	1,482,290	-	-	1,482,290
Development	596,010	-	-	596,010
Administration	745,140	25,068	59,091	829,299
Total expenses	<u>6,503,126</u>	<u>25,068</u>	<u>59,091</u>	<u>6,587,285</u>
Change in unrestricted net assets	(744,914)	(485,067)	1,412	(1,228,569)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Net assets released from restriction	(168,670)	-	-	(168,670)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS				
Contributions	-	-	14,460	14,460
CHANGE IN NET ASSETS	(913,584)	(485,067)	15,872	(1,382,779)
NET ASSETS				
Beginning of year	<u>(1,495,328)</u>	<u>16,383,914</u>	<u>2,134,273</u>	<u>17,022,859</u>
End of year	<u>\$ (2,408,912)</u>	<u>\$ 15,898,847</u>	<u>\$ 2,150,145</u>	<u>\$ 15,640,080</u>