

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities Without Donor Restrictions	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statement of Functional Expenses - 2019	6
Consolidated Statement of Functional Expenses - 2018	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9 - 19
Supplementary Information:	
Consolidating Statement of Financial Position - 2019	20
Consolidating Statement of Financial Position - 2018	21
Consolidating Statement of Activities and Changes in Net Assets - 2019	22
Consolidating Statement of Activities and Changes in Net Assets - 2018	23

Independent Auditor's Report

To the Board of Trustees 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, 2019 and 2018, and the related consolidated statements of activities without donor restrictions, changes in net assets, functional expenses 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 audits 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.



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

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

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, 2019 and 2018, 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.

Effect of Adopting a New Accounting Standard

As discussed in Note 1, the Theatre adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and related ASUs, for the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

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 20 through 23 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 PS

Certified Public Accountants
July 22, 2020

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 181	\$ 119,170
Accounts and interest receivable	27,646	14,948
Current portion of pledges receivable, net	282,334	571,518
Prepaid expenses and deposits	<u>80,578</u>	<u>56,688</u>
Total Current Assets	390,739	762,324
Long-term pledges receivable, net		14,567
Investments	2,344,666	2,092,244
Property and equipment, net	<u>11,636,238</u>	<u>12,134,908</u>
Total Assets	<u>\$ 14,371,643</u>	<u>\$ 15,004,043</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 287,366	\$ 263,008
Accrued expenses	256,559	259,727
Advance ticket sales	764,696	904,775
Line of credit	<u>190,687</u>	
Total Current Liabilities	1,499,308	1,427,510
Deferred revenue	<u>389,532</u>	<u>412,447</u>
Total Liabilities	1,888,840	1,839,957
Net Assets:		
Without donor restrictions	10,169,716	10,844,610
With donor restrictions	<u>2,313,087</u>	<u>2,319,476</u>
Total Net Assets	<u>12,482,803</u>	<u>13,164,086</u>
Total Liabilities and Net Assets	<u>\$ 14,371,643</u>	<u>\$ 15,004,043</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidated Statements of Activities Without Donor Restrictions
For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Revenue and Support:		
Subscriptions and single tickets	\$ 2,611,647	\$ 2,441,619
Contribution revenue	2,356,396	3,894,170
Contributions released from restriction	242,841	703,682
Memberships	208,712	225,534
In-kind contributions	73,397	71,132
Other revenue	<u>732,064</u>	<u>703,809</u>
Total Revenue and Support	6,225,057	8,039,946
Expenses:		
Artistic and production	3,588,184	3,456,208
Audience development and services	1,404,992	1,307,731
Development	563,584	617,202
Administration	<u>727,807</u>	<u>818,226</u>
Total Expenses	6,284,567	6,199,367
Change in Net Assets Without Donor Restrictions Before Depreciation	(59,510)	1,840,579
Depreciation	<u>615,384</u>	<u>601,605</u>
Change in Net Assets Without Donor Restrictions	\$ (674,894)	\$ 1,238,974

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Activities Without Donor Restrictions		
Revenue and support	\$ 5,982,216	\$ 7,336,264
Contributions released from restriction	242,841	703,682
Expenses	<u>(6,899,951)</u>	<u>(6,800,972)</u>
Change in Net Assets Without Donor Restrictions	(674,894)	1,238,974
Activities With Donor Restrictions		
Contributions		30,000
Endowment investment return	370,888	(122,578)
Loss on expired grants receivable and uncollectible pledges	(134,436)	(24,018)
Contributions released from restriction	<u>(242,841)</u>	<u>(703,682)</u>
Change in Net Assets With Donor Restrictions	(6,389)	(820,278)
Total Change in Net Assets	(681,283)	418,696
Net assets, beginning of year	<u>13,164,086</u>	<u>12,745,390</u>
Net Assets, End of Year	<u>\$ 12,482,803</u>	<u>\$ 13,164,086</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019**

	<u>Production</u>	<u>Audience</u>	<u>Development</u>	<u>Administration</u>	<u>2019 Total</u>
Salaries and wages	\$ 1,872,660	\$ 673,397	\$ 306,604	\$ 408,179	\$ 3,260,840
Benefits	548,607	123,749	48,676	83,661	804,693
Fees, insurance, permits, taxes, miscellaneous	90,204	21,659	158,722	108,662	379,247
Facilities	377,248				377,248
Professional services	106,102	96,245	16,403	43,597	262,347
Guest artists	245,090	3,083	10,450		258,623
Advertising	300	254,813	99		255,212
Printing and postage	1,583	227,826	21,587	990	251,986
Supplies and materials	175,613	3,481	1,043	6,458	186,595
Royalties and Playwrights	131,423				131,423
Equipment, computer repair and maintenance, software	<u>39,354</u>	<u>739</u>		<u>76,260</u>	<u>116,353</u>
Expenses before depreciation	3,588,184	1,404,992	563,584	727,807	6,284,567
Depreciation	<u>546,634</u>	<u>44,535</u>	<u>5,502</u>	<u>18,713</u>	<u>615,384</u>
Total Functional Expenses	<u>\$ 4,134,818</u>	<u>\$ 1,449,527</u>	<u>\$ 569,086</u>	<u>\$ 746,520</u>	<u>\$ 6,899,951</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018**

	<u>Production</u>	<u>Audience</u>	<u>Development</u>	<u>Administration</u>	<u>2018 Total</u>
Salaries and wages	\$ 1,736,765	\$ 660,935	\$ 304,267	\$ 401,451	\$ 3,103,418
Benefits	514,566	127,051	46,625	80,748	768,990
Fees, insurance, permits, taxes, miscellaneous	54,302	84,060	166,769	182,692	487,823
Facilities	345,816	60	1,440	121	347,437
Guest artists	327,760		11,325		339,085
Professional services	93,685	80,700	22,905	73,258	270,548
Supplies and materials	190,360	2,958	25,355	5,946	224,619
Printing and postage	853	166,707	34,850	2,021	204,431
Advertising	4,737	185,215	2,427		192,379
Royalties and Playwrights	154,048				154,048
Equipment, computer repair and maintenance, software	<u>33,316</u>	<u>45</u>	<u>1,239</u>	<u>71,989</u>	<u>106,589</u>
Expenses before depreciation	3,456,208	1,307,731	617,202	818,226	6,199,367
Depreciation	<u>534,389</u>	<u>43,537</u>	<u>5,384</u>	<u>18,295</u>	<u>601,605</u>
Total Functional Expenses	<u>\$ 3,990,597</u>	<u>\$ 1,351,268</u>	<u>\$ 622,586</u>	<u>\$ 836,521</u>	<u>\$ 6,800,972</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidated Statements of Cash Flows
For the Year Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (681,283)	\$ 418,696
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities-		
Depreciation	615,384	601,605
Realized and unrealized (gains) losses on investments	(329,362)	178,354
Cash (used) provided by changes in operating assets and liabilities:		
Accounts and interest receivable	(12,698)	10,874
Pledges receivable	303,751	17,926
Prepaid expenses and deposits	(23,890)	70,865
Accounts payable	24,358	(10,792)
Accrued expenses	(3,168)	21,072
Advance ticket sales	(140,079)	(35,106)
Deferred revenue	(22,915)	(22,915)
Net Cash (Used) Provided by Operating Activities	(269,902)	1,250,579
Cash Flows From Investing Activities:		
Purchase of property and equipment	(116,714)	(214,900)
Net change in cash restricted for endowment		3,779
Proceeds from sale of investments	779,160	265,428
Purchase of investments	(702,220)	(99,982)
Net Cash Used by Investing Activities	(39,774)	(45,675)
Cash Flows From Financing Activities:		
Net line of credit activity	190,687	
Payments on notes payable		(1,250,000)
Net Cash Provided (Used) by Financing Activities	190,687	(1,250,000)
Net Change in Cash and Cash Equivalents	(118,989)	(45,096)
Cash and cash equivalents, beginning of year	119,170	164,266
Cash and Cash Equivalents, End of Year	\$ 181	\$ 119,170
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 28,070	\$ 98,264

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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. Additionally, ACT is the sole corporate member of ETC. The Foundation's bylaws require that its governing board include three current officers of the ACT board and no fewer than two members who are either at-large members of ACT's board or ACT advisory board members and at least one non-affiliated board member. 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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on 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 donor restricted contributions as without donor restrictions to the extent that donor 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 (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

Note 1 - Continued

Revenue Recognition -

Subscription and Single Tickets - The Theatre presents theater performances and earns revenue from ticket sales. Tickets are sold in subscription packages and as single tickets and are generally purchased by customers in advance of the performances. Tickets sold are non-refundable. The Theatre's performance obligation for each ticket is to provide a seat at the applicable performance. Revenue from subscription packages and single tickets are recognized at the time the performance occurs.

Memberships - The Theatre also earns revenue from the sales of memberships, which provides the member flexible access to most ticketed events and performances. Member dues are paid annually for the ACTPass Subscription and monthly for standard memberships. Revenue is recognized monthly over the life of the membership and ratably over the life of the subscription of ACTPass subscriptions.

Contribution Revenue - The Theatre recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give are not recognized as revenues until the conditions on which they depend have been met. There were no conditional contributions as of December 31, 2019 or 2018. Contribution amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. The Theatre does not consider the recognition of a donor for a specific play or season to be a donor restriction.

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, 2019 and 2018.

Investments - Investments in certificates of deposit and money markets are carried at cost plus accrued interest. Investments in stocks, mutual funds, exchange traded funds and bonds are carried at fair value. Interest and dividends are included in investment return as earned.

Investment securities, in general, are exposed to various risks, including interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably probable that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

Property and Equipment - The Theatre's property and equipment are stated at cost if purchased, or fair value on the date of receipt if contributed. All property and equipment over \$1,000 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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

Note 1 - Continued

Concentrations - At December 31, 2019 and 2018, 52% and 50%, respectively of the Theatre's employees including actors, theatrical stage workers and musicians are represented by unions with multi-year collective bargaining agreements which expire in 2020 and 2022.

At December 31, 2019 and 2018, 44% and 51% of the Theatre's pledges receivable were from three and two grantors, respectively. For the year ended December 31, 2019 and 2018, 15% and 36% of the Theatre's contributions were from one and two donors, respectively.

Donated Services and Materials - The Theatre receives various donated auction items, catering, marketing, materials and services that contribute to the annual gala and the Theatre's 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, 2019 and 2018, donated services and materials equaled \$73,397 and \$71,132, 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 U.S. GAAP and, accordingly, is not reflected in the accompanying consolidated financial statements.

Advertising - The Theatre expenses advertising costs as they are incurred. Total advertising expense for the years ended December 31, 2019 and 2018 was \$255,212 and \$192,379, respectively.

Federal Income Taxes - The Internal Revenue Service has notified ACT, ETC and the Foundation that they are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

Allocation of Functional Expenses - Expenses consist of the costs related to providing artistic and production, audience development and services, development, and administration functions. Depreciation is allocated based on a square footage basis. All other costs are directly charged to the function they benefit.

Reclassifications - Certain reclassifications have been made to the 2018 amounts to conform to the 2019 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets, or change in net assets for 2018, other than those described below.

Adoption of New Accounting Pronouncements - During the year ended December 31, 2019, the Theatre adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This update was issued to clarify and improve the scope and accounting guidance for contributions received and contributions made. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. There were no changes to the way contributions and grants were recognized.

During the year ended December 31, 2019, the Theatre adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)* and other related ASUs. These ASUs replaced the existing revenue recognition guidance in U.S. GAAP and require entities to recognize revenues when control of the promised goods or service is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018**

Note 1 - Continued

The primary effect of adoption of these ASUs for the Theatre is the reclassification of prepaid advertising. Under Topic 606, advertising costs are to be expensed as incurred regardless of when the advertisement is set to run. The Theatre elected to adopt the changes from these ASUs using the full retrospective method, which required the Theatre to restate the financial statements for December 31, 2018.

The consolidated financial statements have been restated as follows as of and for the year ended December 31, 2018:

	<u>As Previously Reported</u>	<u>Restatements</u>	<u>As Restated</u>
Impacted Lines - Consolidated Statements of Financial Position			
Assets:			
Prepaid expenses and deposits	\$ 131,201	\$ (74,513)	\$ 56,688
Net Assets:			
Net assets without donor restrictions	10,919,123	(74,513)	10,844,610
Impacted Lines - Consolidated Statements of Activities Without Donor Restrictions and Changes in Net Assets			
Expenses:			
Audience development and services	\$ 1,281,200	\$ 26,531	\$ 1,307,731
Net Assets:			
Net assets beginning of year	12,793,372	(47,982)	12,745,390
Change in net assets without donor restrictions	1,265,505	(26,531)	1,238,974

Adoption of the standards related to revenue recognition had no impact to cash provided by or used in operating, financing, or investing in our statement of cash flows.

Note 2 - Pledges Receivable

Pledges receivable consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Receivables due in less than one year	\$ 282,334	\$ 571,518
Receivables due in two to five years		15,000
	282,334	586,518
Less present value discount of 3%		(433)
Total Pledges Receivable, Net	<u>\$ 282,334</u>	<u>\$ 586,085</u>

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

Note 2 - Continued

From time to time, unspent award funds may be returned to a funder or the related pledge may be written-off for a variety of reasons including, but not limited to, a reduction in funds required to accomplish a project's scope of work or a project that is no longer pursued. During the year ended December 31, 2019, the Theatre wrote-off a pledge totaling \$134,436 related to project that is no longer being pursued.

Note 3 - Investments and Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets measured at fair value:

Stocks - Valued at the closing price reported on the active market on which the securities are traded.

Bonds - Valued using bid evaluations from similar instruments in actively traded markets.

Exchange Traded Funds and REITs - Valued at quoted market prices in active markets, which represent the net assets value (NAV) of shares held by the Theatre at year end.

The valuation methodologies used by the Theatre may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Theatre believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

Note 3 - Continued

Total investments and fair values of assets measured on a recurring basis were as follows:

	Fair Value Measurements as of December 31, 2019		
	Level 1	Level 2	Total
Stocks	\$ 942,623	\$ -	\$ 942,623
Exchange traded funds	505,389		505,389
REITs	43,385		43,385
Bonds		787,250	787,250
Total Investments at Fair Value	\$ 1,491,397	\$ 787,250	2,278,647
Investments valued at cost-			
Certificate of deposit held at bank			31,023
Money market funds			34,996
Total Investments			\$ 2,344,666

	Fair Value Measurements as of December 31, 2018		
	Level 1	Level 2	Total
Stocks	\$ 737,731	\$ -	\$ 737,731
Exchange traded funds	373,873		373,873
REITs	15,454		15,454
Bonds		653,703	653,703
Total Investments at Fair Value	\$ 1,127,058	\$ 653,703	1,780,761
Investments valued at cost-			
Certificate of deposit held at bank			51,789
Money market funds			259,694
Total Investments			\$ 2,092,244

Investment return for the years ended December 31 was as follows:

	2019	2018
Interest and dividends	\$ 56,997	\$ 71,204
Realized and unrealized gains (losses)	329,362	(178,354)
Fees	(15,471)	(15,428)
	\$ 370,888	\$ (122,578)

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 13,158,068	\$ 13,054,330
Land	2,411,188	2,411,188
Theatre equipment	1,425,137	1,419,120
Theatre furnishings and lights	179,795	179,795
Office and other equipment	756,774	749,817
Box office and development software	392,360	392,360
Nondepreciable piano	35,000	35,000
Automobile	<u>10,000</u>	<u>10,000</u>
	18,368,322	18,251,610
Less accumulated depreciation	<u>(6,732,084)</u>	<u>(6,116,702)</u>
Total Property and Equipment, Net	<u>\$ 11,636,238</u>	<u>\$ 12,134,908</u>

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.

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

The Theatre has a revolving line of credit with available borrowings up to \$1,470,000, secured by the Foundation's investments. Interest on the line of credit is equal to prime plus 0.5% (5.25% and 5.75% at December 31, 2019 and 2018, respectively) and the line of credit matures October 31, 2020. The balance outstanding at December 31, 2019 was \$190,687. There was no balance outstanding at December 31, 2018.

The Theatre had a note payable to a trust, secured by the real property of Eagles Theatre Centre, with 8% interest rate, monthly payments of interest of \$8,333, \$550,000 due on July 31, 2018 with the remaining principal due at maturity on December 31, 2018. The note was repaid in full during 2018.

Total interest expense for the years ended December 31, 2019 and 2018, was \$28,070 and \$98,264, respectively.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

Note 7 - Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Subject to the passage of time or expenditure for specified purpose-		
Restoration and renovation	\$ 5,000	\$ 146,052
Pledges receivable		112,880
Artist residency		<u>25,000</u>
Total subject to the passage of time or expenditure for specified purpose	5,000	283,932
Endowment funds-		
Original gifts and required retained earnings (corpus)	2,318,492	2,318,492
Accumulated deficit on endowment	<u>(10,405)</u>	<u>(282,948)</u>
Total endowment funds	<u>2,308,087</u>	<u>2,035,544</u>
Total Net Assets With Donor Restrictions	<u>\$ 2,313,087</u>	<u>\$ 2,319,476</u>

Note 8 - Endowment Funds

The Theatre's endowments are donor-restricted to support the Theatre's operations. As required by U.S. GAAP, net assets associated with a donor restricted endowment is 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 net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

Note 8 - Continued

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

	<u>2019</u>	<u>2018</u>
Endowment net assets, beginning of year	\$ 2,035,544	\$ 2,408,768
Endowment investment return, net	370,888	(122,578)
Appropriation of endowment for expenditure	(97,700)	(250,000)
Other Foundation expenses	<u>(645)</u>	<u>(646)</u>
Endowment Net Assets, End of Year	<u>\$ 2,308,087</u>	<u>\$ 2,035,544</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 or PMIFA requires the Theatre to retain as a fund of perpetual duration. These deficiencies generally result from unfavorable market fluctuations and continued appropriation that was deemed prudent by the Board of Trustees. At December 31, 2019, one endowment fund had a current fair value of \$2,026,689, an original gift value of \$2,068,492, leaving a deficit of \$41,803. At December 31, 2018, two endowment funds had a current fair value of \$2,035,544, an original gift value of \$2,318,492, leaving a deficit of \$282,948.

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 3.0% over the rate of inflation 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's spending policy is outlined in the Foundation's bylaws. Income distributable annually to the Theatre from the Foundation is defined as a percentage, within a range of three to five (3 - 5) percent, multiplied by the average value of the Foundation's investment portfolio for the twelve (12) calendar quarters preceding the date of distribution. The percentage used for distribution is approved annually by the Board of Directors.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018**

Note 9 - Contingencies

Employment Contracts - The Theatre has employment contracts with key employees which extend through December 31, 2024. The agreements specify the employees' annual compensation, benefits, and severance payments.

Note 10 - Liquidity and Availability of Financial Assets

The Organization's working capital and cash flows have seasonal variations during the year attributable primarily to the annual cash receipts for subscriptions and a concentration of contributions and single ticket revenue received near calendar year end. To manage liquidity the Organization maintains a line of credit of \$1.47 million with a bank that is drawn upon as needed during the year to manage cash flow. See Note 6 for further description of this line.

The following reflects the Theatre's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 181	\$ 119,170
Accounts receivable, to be collected in less than one year	27,646	14,948
Pledges receivable, net, to be collected in less than one year and endowment pledges	282,334	571,518
Investments	<u>2,344,666</u>	<u>2,092,244</u>
Total financial assets, excluding noncurrent receivables	2,654,827	2,797,880
Less financial assets unavailable for general expenditures-		
Endowment fund investments	(2,313,647)	(2,040,456)
Pledges restricted for restoration and renovation	(5,000)	(146,052)
Pledges restricted for artist residency		(25,000)
Actors Union Bond	<u>(31,023)</u>	<u>(51,789)</u>
Financial assets unavailable for general expenditures	<u>(2,349,670)</u>	<u>(2,263,297)</u>
Total Financial Assets Available for General Expenditure Within One Year	<u>\$ 305,157</u>	<u>\$ 534,583</u>

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

Note 11 - Subsequent Events and Financial Condition

The Theatre evaluated its December 31, 2019 consolidated financial statements for subsequent events through July 22, 2020, which is the date the consolidated financial statements were available to be issued. In December 2019, a novel coronavirus (COVID-19) was reported in Wuhan, China. Subsequent to year end, the World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak has caused business disruption through mandated and voluntary closings of businesses and restrictions on public gatherings. As a result, the Theatre suspended production of all plays and events for the 2020 season and cut expenses.

Effective June 15, 2020 ACT subscribers and single ticket holders for 2020 performances were notified that the season was cancelled and offered the option to donate the value of their tickets, convert them to gift cards for future performances, or contact the Theatre about other arrangements. Patrons were notified if they do not communicate their preferences, all tickets will be automatically converted to donations on September 15, 2020. As of July 08, 2020, the Theatre has heard from about half of the ticket holders with 61% contributing the entire value, 28% converting them gift cards, and 10% requesting a full or partial refund. Of the latter, many have indicated they plan use the refund to make an employer-match eligible contribution to the Theatre.

The Theatre has worked to cut expenses significantly and modeled net revenue and cash flows through July 2021 based on updated budgeting. The Theatre plans to resume live production in the fall of 2021. The forecast use of cash is typical for that time of year and is very similar to the use of cash by the same date in 2019. If external circumstances change beyond what is evident as of July 22, 2020, ACT is prepared to reduce expenses further by furloughing staff and making adjustments to other expenses for projects moving forward.

In response to COVID-19, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 9, 2020, the Theatre obtained a loan under the PPP with a principal balance of \$835,536 and an annual interest rate of 1%. Principal and interest are payable in monthly installments of \$47,009 beginning October 31, 2020 through maturity on March 31, 2022. All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met.

SUPPLEMENTARY INFORMATION

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2019

	ACT	ETC	Foundation	Consolidated Total
Assets				
Current Assets:				
Cash and cash equivalents	\$ -	\$ 181	\$ -	\$ 181
Accounts and interest receivable	27,646			27,646
Current portion of pledges receivable, net	282,334			282,334
Prepaid expenses and deposits	80,522	56		80,578
Total Current Assets	390,502	237		390,739
Investments	31,023		2,313,643	2,344,666
Property and equipment, net	800,902	10,835,336		11,636,238
Interorganization receivables (payables)	157,923	(152,367)	(5,556)	
Total Assets	\$ 1,380,350	\$ 10,683,206	\$ 2,308,087	\$ 14,371,643
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable	\$ 287,366	\$ -	\$ -	\$ 287,366
Accrued expenses	256,559			256,559
Advance ticket sales	764,696			764,696
Line of credit	190,687			190,687
Total Current Liabilities	1,499,308			1,499,308
Deferred revenue	389,532			389,532
Total Liabilities	1,888,840			1,888,840
Net Assets:				
Without donor restrictions	(513,490)	10,683,206		10,169,716
With donor restrictions	5,000		2,308,087	2,313,087
Total Net Assets	(508,490)	10,683,206	2,308,087	12,482,803
Total Liabilities and Net Assets	\$ 1,380,350	\$ 10,683,206	\$ 2,308,087	\$ 14,371,643

See independent auditor's report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2018

	ACT	ETC	Foundation	Consolidated Total
Assets				
Current Assets:				
Cash and cash equivalents	\$ 118,989	\$ 181	\$ -	\$ 119,170
Accounts and interest receivable	14,948			14,948
Current portion of pledges receivable, net	571,518			571,518
Prepaid expenses and deposits	56,633	55		56,688
Total Current Assets	762,088	236		762,324
Long-term pledges receivable, net	14,567			14,567
Investments	51,789		2,040,455	2,092,244
Property and equipment, net	796,638	11,338,270		12,134,908
Interorganization receivables (payables)	155,065	(150,154)	(4,911)	
Total Assets	\$ 1,780,147	\$ 11,188,352	\$ 2,035,544	\$ 15,004,043
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable	\$ 263,008	\$ -	\$ -	\$ 263,008
Accrued expenses	259,727			259,727
Advance ticket sales	904,775			904,775
Total Current Liabilities	1,427,510			1,427,510
Deferred revenue	412,447			412,447
Total Liabilities	1,839,957			1,839,957
Net Assets:				
Without donor restrictions	(343,742)	11,188,352		10,844,610
With donor restrictions	283,932		2,035,544	2,319,476
Total Net Assets	(59,810)	11,188,352	2,035,544	13,164,086
Total Liabilities and Net Assets	\$ 1,780,147	\$ 11,188,352	\$ 2,035,544	\$ 15,004,043

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, 2019

	ACT	ETC	Foundation	Eliminating Entries	Consolidated Total
Activities Without Donor Restrictions					
Revenue and Support:					
Subscriptions and single tickets	\$ 2,611,647	\$ -	\$ -	\$ -	\$ 2,611,647
Contribution revenue	2,454,096			(97,700)	2,356,396
Contributions and investment income released from restriction	144,496		98,345		242,841
Memberships	208,712				208,712
In-kind contributions	73,397				73,397
Other revenue	732,064				732,064
Total Revenue and Support	6,224,412		98,345	(97,700)	6,225,057
Expenses:					
Artistic and production	3,585,972	2,212	97,700	(97,700)	3,588,184
Audience development and services	1,404,992				1,404,992
Development	563,584				563,584
Administration	727,162		645		727,807
Total Expenses	6,281,710	2,212	98,345	(97,700)	6,284,567
Change in Net Assets Without Donor Restrictions Before Depreciation	(57,298)	(2,212)			(59,510)
Depreciation	112,450	502,934			615,384
Change in Net Assets Without Donor Restrictions	(169,748)	(505,146)			(674,894)
Activities With Donor Restrictions					
Contributions					
Endowment investment return			370,888		370,888
Loss on expired grants receivable and uncollectible pledges	(134,436)				(134,436)
Contributions and investment income released from restriction	(144,496)		(98,345)		(242,841)
Change in Net Assets With Donor Restrictions	(278,932)		272,543		(6,389)
Total Change in Net Assets	(448,680)	(505,146)	272,543		(681,283)
Net assets, beginning of year	(59,810)	11,188,352	2,035,544		13,164,086
Net Assets, End of Year	\$ (508,490)	\$ 10,683,206	\$ 2,308,087	\$ -	\$ 12,482,803

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, 2018

	ACT	ETC	Foundation	Eliminating Entries	Consolidated Total
Activities Without Donor Restrictions					
Revenue and Support:					
Subscriptions and single tickets	\$ 2,441,619	\$ -	\$ -	\$ -	\$ 2,441,619
Contribution revenue	4,144,170			(250,000)	3,894,170
Contributions and investment income released from restriction	453,036		250,646		703,682
Memberships	225,534				225,534
In-kind contributions	71,132				71,132
Other revenue	703,809				703,809
Total Revenue and Support	8,039,300		250,646	(250,000)	8,039,946
Expenses:					
Artistic and production	3,454,079	2,129	250,000	(250,000)	3,456,208
Audience development and services	1,307,731				1,307,731
Development	617,202				617,202
Administration	817,580		646		818,226
Total Expenses	6,196,592	2,129	250,646	(250,000)	6,199,367
Change in Net Assets Without Donor Restrictions Before Depreciation	1,842,708	(2,129)			1,840,579
Depreciation	98,671	502,934			601,605
Change in Net Assets Without Donor Restrictions	1,744,037	(505,063)			1,238,974
Activities With Donor Restrictions					
Contributions	30,000				30,000
Endowment investment return			(122,578)		(122,578)
Loss on uncollectible pledges	(24,018)				(24,018)
Contributions and investment income released from restriction	(453,036)		(250,646)		(703,682)
Change in Net Assets With Donor Restrictions	(447,054)		(373,224)		(820,278)
Total Change in Net Assets	1,296,983	(505,063)	(373,224)		418,696
Net assets, beginning of year	(1,356,793)	11,693,415	2,408,768		12,745,390
Net Assets, End of Year	\$ (59,810)	\$ 11,188,352	\$ 2,035,544	\$ -	\$ 13,164,086

See independent auditor's report.