

August 9, 2018

Greetings,

Thank you for your interest in ACT Theatre. We are pleased to make available the audited financial statements for fiscal year 2017. Following this letter, you will find the complete audit, prepared by the accounting firm of Clark Nuber, P.S.

The financial statement of ACT Theatre includes results for three separate, related entities: ACT Theatre produces and presents theatre; Eagles Theatre Center is the owner of the historic landmark building; ACT Foundation receives and invests endowment contributions for the benefit of ACT Theatre. Because the three organizations share some common board members and common management, the accompanying audited financial statements consolidate all three entities. Pages 17 and 19 break out the performance of each entity.

ACT Theatre is on a strong financial course. ACT exceeded its net operating revenue budgeted goal by 12% (\$432,000) in 2017. Additionally, ACT had non-operating net revenue of \$720K, which along with pledge payments, allowed it to significantly reduce its liabilities by paying off a \$450,000 promissory note and reducing its bank line of credit to zero by the end of 2017. As of 7/25/18, ACT received a significant bequest and has entered into a payment agreement with its one remaining note holder (\$1.25M) to pay off the note in full on or before 12/31/18.

### **2017 RESULTS**

ACT has 5,200 Mainstage season subscribers and 900 ACTPass Members. Combined, these package ticket buyers contribute significantly to ACT's earned revenue. ACT's 52nd season on the Mainstage brought in 21,864 single ticket buyers. Celebrating its 10th Anniversary, the ACTLab attracted 21,421 attendees across 132 performances of various events created through partnerships with area artists. The 42nd annual production of *A Christmas Carol* exceeded its goal and performed at over 80% of capacity. There were 513 performances and events in ACT's five venues in 2017. Total attendance was over 137,000. ACT employed a Group Sales Manager in 2017 and saw an increase of 2,227 group patrons and a 49% increase in group sales revenue. Groups for *A Christmas Carol* increased by over 900 patrons and 30% in revenue.

### **ARTISTIC MILESTONES**

ACT's Core Company brought five stellar performers together for the 2017 season; Anne Allgood, Khanh Doan, Claudine Mboligikpelani Nako, Adam Standley, and Ray Tagavilla. The Core was created by John Langs in his first year as Artistic Director and is an annually selected group of actors. Its purpose is to encourage an environment of artistic excellence, while creating a home for local actors to experiment and grow over the course of the season.

Highlights from the 2017 Mainstage season include the play *Tribes*, which started the year off expanding ACT's reach to the Deaf/Hard of Hearing Community and played to sold-out houses throughout the run. This play kicked off ACT's use of the Figaro MobiText Closed Captioning System which allows patrons to utilize closed-captioning on hand-held devices. ACT is proud of these advances in making theatre accessible for Deaf/Hard of Hearing audiences. ACT's collaboration with the 5th Avenue Theatre continued for the seventh consecutive year, with the madcap mystery *Murder for Two*. Summer of 2017 introduced the world premiere of *Moby*



Pomerance's *Alex & Aris*, a historical drama about the relationship between Alexander the Great and Aristotle. The fall was filled with productions that exceeded ticket goals. Lauren Yeess' new play, *King of the Yeess*, was wildly successful and initiated solid partnerships with Chinese and other Asian artists as well as Asian media throughout the Puget Sound. Closing out the Mainstage season was the highly acclaimed production of Arthur Miller's *The Crucible*, directed by John Langs. The show hit 113% of its revenue goal and the final week of performances were filled to standing room. ACT welcomed over 1,000 new patrons into the theatre for this production. Overall, ACT saw 8,600 first-time patrons in 2017.

ACT celebrated the 10th year of the ACTLab (previously the Central Heating Lab) with successes throughout the year. The overall sales goal for the ACTLab reached 165% of its sales target with 13 out of 15 partners surpassing their goal. Attendance to the ACTLab was over 21,000. Highlights of the year were Anton Chekhov's *The Cherry Orchard* which continued the successful partnership between The Seagull Project and ACTLab; Pratidhwani's dance spectacular, *Chitrangada*, that brought in over 3,600 patrons and more than quadrupled its sales goal; and Ben de la Crème's *Beware the Terror of Gaylord Manor* broke the record for sales in the Bullitt Cabaret and exceeded its sales goal by \$50,000.

The 2017 ACT Gala reached maximum capacity, exceeded its revenue goal, and brought in over half a million dollars in contributed funds. The gala, held on October 6, 2017 throughout ACT's multi-story building, had 280 guests and was filled with extraordinary performance art by Lucia Neare's Theatrical Wonders throughout the evening.

ACT's Young Playwrights Program (YPP) started in 2002 and has more than doubled in size since its inaugural year. The 2017 YPP expanded to 10 schools and 12 classrooms with 270 students. The program embeds teaching artists in school classrooms to guide students through the process of becoming playwrights. With 40% of YPP students on scholarship, ACT supports greater access for students with little or no other arts education opportunity.

## ACT'S FUTURE

2017 was a good year for the Eagles Auditorium and ACT's continued commitment to its preservation. We received renewed support from the Norcliffe Foundation, John Graham Foundation, Wyman Youth Trust, and the Seattle Office of Arts & Culture, as well as new support from The Sunderland Foundation. Major repairs are in store for the 22-year old roof and the 93-year-old historic terra cotta façade.

We continued to see great support from our community for the Young Playwrights Program (YPP) including the The Boeing Company, National Endowment for the Arts, Horizons Foundation, Harvest Foundation, McEachern Charitable Trust, Elizabeth George Foundation, and the Washington State Arts Commission. These grants make it possible for students in the Puget Sound area to experience and benefit from arts education in our schools.

In 2017 we also received support for creating the art on stage, enabling ACT to take the risks our patrons have come to expect. This important support from ArtsFund, Shubert Foundation, Seattle Office of Art & Culture, 4Culture, the Nesholm Family Foundation, the Kenan Charitable Trust, Microsoft, Homestreet Bank, and the Treeline Foundation makes our mission possible.



Improvements have been made to the building's HVAC and radio systems, and lighting throughout the venue has been updated to efficient LED bulbs.

At the time of this letter, ACT's 54th season is at its midway point and the theatre has had a successful start to the year. ACT is under board leadership of Gary Houlahan, Chair; Michael Crystal, Treasurer/Finance Chair; Bob Dowdy, Governance Chair; Teresa Revelle, Development Chair; Leslie Bernstein, Vice Chair/Audience Engagement Chair; Bill Kuhn, IT Chair; and Erika Nesholm, Secretary.

Thank you for your interest and please let us know if you have any further inquiry about ACT Theatre's current and/or future financial plans.

Sincerely,



Becky Witmer, Managing Director



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

Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

## Table of Contents

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	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Consolidated Financial Statements:</b>	
Consolidated Statements of Financial Position	3
Consolidated Statements of Unrestricted Activities	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7 - 16
<b>Supplementary Information:</b>	
Consolidating Statement of Financial Position - 2017	17
Consolidating Statement of Financial Position - 2016	18
Consolidating Statement of Activities and Changes in Net Assets - 2017	19
Consolidating Statement of Activities and Changes in Net Assets - 2016	20

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of A Contemporary Theatre, Inc. and Affiliates (collectively, the Theatre), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.



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### **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, 2017 and 2016, 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.

### **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 17 through 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Clark Nuber P.S.*

Certified Public Accountants  
July 23, 2018

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Financial Position  
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 164,266	\$ 181
Accounts and interest receivable	25,822	17,702
Current portion of pledges receivable, net	255,954	679,264
Prepaid expenses and deposits	<u>175,535</u>	<u>241,789</u>
<b>Total Current Assets</b>	<b>621,577</b>	<b>938,936</b>
Long-term pledges receivable, net	348,057	280,374
Cash restricted for endowment	3,779	3,779
Investments	2,436,044	2,322,029
Property and equipment, net	<u>12,521,613</u>	<u>13,040,011</u>
<b>Total Assets</b>	<b><u>\$ 15,931,070</u></b>	<b><u>\$ 16,585,129</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 273,800	\$ 226,359
Accrued expenses	238,655	238,882
Advance ticket sales	939,881	1,180,510
Line of credit		645,681
Current portion of notes payable	<u>1,250,000</u>	
<b>Total Current Liabilities</b>	<b>2,702,336</b>	<b>2,291,432</b>
Notes payable, net of current portion		1,700,000
Deferred revenue	<u>435,362</u>	<u>458,277</u>
<b>Total Liabilities</b>	<b>3,137,698</b>	<b>4,449,709</b>
<b>Net Assets:</b>		
Unrestricted	9,653,618	8,508,686
Temporarily restricted	821,262	1,333,242
Permanently restricted	<u>2,318,492</u>	<u>2,293,492</u>
<b>Total Net Assets</b>	<b><u>12,793,372</u></b>	<b><u>12,135,420</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 15,931,070</u></b>	<b><u>\$ 16,585,129</u></b>

See accompanying notes.



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

**Consolidated Statements of Unrestricted Activities  
For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Revenue and Support:</b>		
Subscriptions and single tickets	\$ 2,698,606	\$ 2,637,112
Contribution revenue	2,903,737	2,047,789
Endowment investment return	15,276	92,593
Contributions and investment income released from restriction	876,044	708,783
Memberships	256,853	243,169
In-kind contributions	70,771	121,511
Other revenue	750,706	664,985
Sale of transferable development rights	458,391	582,328
<b>Total Revenue and Support</b>	<b>8,030,384</b>	<b>7,098,270</b>
<b>Expenses:</b>		
Artistic and production	3,554,155	3,562,745
Audience development and services	1,378,564	1,302,367
Development	502,887	574,704
Administration	849,310	957,524
<b>Total Expenses</b>	<b>6,284,916</b>	<b>6,397,340</b>
<b>Change in Unrestricted Net Assets Before Depreciation</b>	<b>1,745,468</b>	<b>700,930</b>
Depreciation	600,536	609,158
<b>Change in Unrestricted Net Assets</b>	<b>\$ 1,144,932</b>	<b>\$ 91,772</b>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets  
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Unrestricted Activities</b>		
Revenue and support	\$ 7,154,340	\$ 6,389,487
Contributions and investment income released from restriction	876,044	708,783
Expenses	<u>(6,885,452)</u>	<u>(7,006,498)</u>
<b>Change in Unrestricted Net Assets</b>	<b>1,144,932</b>	<b>91,772</b>
<b>Temporarily Restricted Activities</b>		
Contributions	213,800	221,727
Endowment investment return	158,154	64,889
Loss on uncollectible pledges	(7,890)	
Contributions and investment income released from restriction	<u>(876,044)</u>	<u>(708,783)</u>
<b>Change in Temporarily Restricted Net Assets</b>	<b>(511,980)</b>	<b>(422,167)</b>
<b>Permanently Restricted Activities</b>		
Contributions	<u>25,000</u>	
<b>Change in Temporarily Restricted Net Assets</b>	<b>25,000</b>	
<b>Total Change in Net Assets</b>	<b>657,952</b>	<b>(330,395)</b>
Net assets, beginning of year	<u>12,135,420</u>	<u>12,465,815</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 12,793,372</u></b>	<b><u>\$ 12,135,420</u></b>

See accompanying notes.

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

**Consolidated Statements of Cash Flows  
For the Year Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 657,952	\$ (330,395)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	600,536	609,158
Forgiveness of notes payable	(225,000)	(154,688)
Realized and unrealized gains on investments	(93,867)	(79,471)
Cash (used) provided by changes in operating assets and liabilities:		
Accounts and interest receivable	(8,120)	(453)
Pledges receivable	355,627	289,012
Prepaid expenses and deposits	66,254	18,335
Accounts payable	47,441	31,824
Accrued expenses	(227)	68,938
Advance ticket sales	(240,629)	18,331
Deferred revenue	(22,915)	(22,915)
<b>Net Cash Provided by Operating Activities</b>	<b>1,137,052</b>	<b>447,676</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(82,138)	(249,493)
Net change in cash restricted for endowment		(224)
Proceeds from sale of investments	1,332,244	1,234,964
Purchase of investments	(1,352,392)	(1,258,898)
<b>Net Cash Used in Investing Activities</b>	<b>(102,286)</b>	<b>(273,651)</b>
<b>Cash Flows From Financing Activities:</b>		
Net line of credit activity	(645,681)	(26,886)
Payments on notes payable	(225,000)	(156,312)
<b>Net Cash Used in Financing Activities</b>	<b>(870,681)</b>	<b>(183,198)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>164,085</b>	<b>(9,173)</b>
Cash and cash equivalents, beginning of year	181	9,354
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 164,266</b>	<b>\$ 181</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 146,736	\$ 158,271
Forgiveness of notes payable	\$ 225,000	\$ 154,688

See accompanying notes.

## A CONTEMPORARY THEATRE, INC. AND AFFILIATES

### Notes to the Consolidated Financial Statements For the Years Ended December 31, 2017 and 2016

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#### 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:

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

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

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

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

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

## A CONTEMPORARY THEATRE, INC. AND AFFILIATES

### Notes to the Consolidated Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 1 - Continued

**Cash and Cash Equivalents** - The Theatre considers cash and cash equivalents to include all highly liquid investments purchased with an original maturity of three months or less.

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

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

The Theatre uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible pledges as of December 31, 2017 and 2016.

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

**Investments** - Investments in certificates of deposit and 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.

**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.

**Concentrations** - At December 31, 2017 and 2016, 56% and 48%, 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.

**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, 2017 and 2016, donated services and materials equaled \$70,771 and \$121,511, respectively.

## A CONTEMPORARY THEATRE, INC. AND AFFILIATES

### Notes to the Consolidated Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 1 - Continued

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, 2017 and 2016 was \$149,449 and \$187,818, 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** - The costs of providing the various programs and other activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

	<u>2017</u>	<u>2016</u>
Artistic and production	\$ 4,200,101	\$ 4,171,903
Audience development and services	1,378,564	1,302,367
Development	502,887	574,704
Administration	<u>849,310</u>	<u>957,524</u>
<b>Total Functional Expenses</b>	<b><u>\$ 6,930,862</u></b>	<b><u>\$ 7,006,498</u></b>

**Subsequent Events** - The Theatre has evaluated subsequent events through July 23, 2018, the date on which the financial statements were available to be issued.

#### Note 2 - Pledges Receivable

Pledges receivable consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Receivables due in less than one year	\$ 280,954	\$ 679,264
Receivables due in two to five years	<u>338,911</u>	<u>293,548</u>
	619,865	972,812
Less present value discount of 3%	<u>(15,854)</u>	<u>(13,174)</u>
<b>Total Pledges Receivable, Net</b>	<b><u>\$ 604,011</u></b>	<b><u>\$ 959,638</u></b>

Foundation pledges receivable of \$25,000 for the year ended December 31, 2017 respectively, are included in the above totals of pledges due in less than one year. These Foundation pledges are reported as long-term on the consolidated statements of financial position due to the nature of the donor restriction.

## A CONTEMPORARY THEATRE, INC. AND AFFILIATES

### Notes to the Consolidated Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 2 - Continued

As a result of the Major Gifts Campaign, pledges receivable at December 31, 2017 includes significant pledges of \$200,000 and \$184,000 from two grantors and at December 31, 2016 the balance includes \$300,000 and \$293,000 from two grantors.

Subsequent to December 31, 2017, the Theatre received notice that it was the beneficiary of a bequest and received a payment on that bequest of \$707,000.

#### 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 quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Theatre at year end.

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

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, 2017 and 2016**

**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, 2017		
	Level 1	Level 2	Total
Stocks	\$ 1,174,053	\$ -	\$ 1,174,053
Bonds		1,159,249	1,159,249
<b>Total Investments at Fair Value</b>	<b>\$ 1,174,053</b>	<b>\$ 1,159,249</b>	2,333,302
Investments valued at cost-			
Certificate of deposit held at bank			51,789
Money market funds			50,953
<b>Total Investments</b>			<b>\$ 2,436,044</b>

	Fair Value Measurements as of December 31, 2016		
	Level 1	Level 2	Total
Stocks	\$ 1,083,549	\$ -	\$ 1,083,549
Bonds		1,084,964	1,084,964
<b>Total Investments at Fair Value</b>	<b>\$ 1,083,549</b>	<b>\$ 1,084,964</b>	2,168,513
Investments valued at cost-			
Certificate of deposit held at bank			43,996
Money market funds			109,520
<b>Total Investments</b>			<b>\$ 2,322,029</b>

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

	2017	2016
Interest and dividends	\$ 79,563	\$ 78,011
Realized and unrealized gains	93,867	79,471
	<b>\$ 173,430</b>	<b>\$ 157,482</b>

The investments of the Foundation at December 31, 2017 and 2016, are pledged as collateral for the line of credit described in Note 6. The certificate of deposit totaling \$51,789, and \$43,996 at December 31, 2017 and 2016, respectively is pledged as an equity bond for an actors' union.



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

**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016**

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**Note 4 - Property and Equipment**

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 12,930,839	\$ 12,921,177
Land	2,411,188	2,411,188
Theatre equipment	1,339,759	1,273,503
Theatre furnishings and lights	179,795	179,795
Office and other equipment	737,765	731,547
Box office and development software	392,360	392,360
Nondepreciable piano	35,000	35,000
Automobile	<u>10,000</u>	<u>10,000</u>
	18,036,706	17,954,570
Less accumulated depreciation	<u>(5,515,093)</u>	<u>(4,914,559)</u>
<b>Total Property and Equipment, Net</b>	<b><u>\$ 12,521,613</u></b>	<b><u>\$ 13,040,011</u></b>

Depreciation expense for the years ended December 31, 2017 and 2016, was \$600,536 and \$609,158, respectively.

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

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

**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.

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

**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016**

**Note 6 - Line of Credit and Notes Payable**

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

	<u>2017</u>	<u>2016</u>
Revolving line of credit with available borrowings up to \$1,570,000, secured by the Foundation's investments, prime interest rate plus 0.5% (5.00% and 4.25% at December 31, 2017 and 2016, respectively), matures October 31, 2018.	\$ -	\$ 645,681
Note payable to a trust, secured by the real property of Eagles Theatre Centre, 8% interest rate, monthly payments of interest of \$8,333, \$550,000 due on July 31, 2018 with remaining principal due at maturity on December 31, 2018.	1,250,000	1,250,000
Related party note payable, unsecured, interest rate of 8% through 2016 and 4% effective January 1, 2017, due March 24, 2018. Principal of \$225,000 was forgiven by lender and principal of \$225,000 was repaid during 2017.		<u>450,000</u>
Total debt	1,250,000	2,345,681
Less current portion	<u>(1,250,000)</u>	<u>(645,681)</u>
<b>Line of Credit and Notes Payable, Net of Current Portion</b>	<b><u>\$ -</u></b>	<b><u>\$ 1,700,000</u></b>

Total interest expense for the years ended December 31, 2017 and 2016, was \$146,736 and \$158,271, respectively.

The related party note is payable to a member of the Theatre's board of trustees.

Subsequent to December 31, 2017, on July 18, 2018, a third amendment on the \$1.25 million trust loan extend the maturity date to December 31, 2018. Additionally, this third amendment included payment terms of \$550,000 on or before July 31, 2018 with the remaining balance due at maturity.

## A CONTEMPORARY THEATRE, INC. AND AFFILIATES

### Notes to the Consolidated Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 7 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Major gifts campaign	\$ 374,965	\$ 783,811
Restoration and renovation	184,033	293,910
Pledges receivable	146,988	193,621
Accumulated unspent earnings on endowment	90,276	
Terra cotta		60,000
Artist residency	25,000	
HVAC		1,900
	<u>\$ 821,262</u>	<u>\$ 1,333,242</u>

#### Note 8 - Permanently Restricted Net Assets and Endowment

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

**Interpretation of Relevant Law** - The Theatre has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the Theatre classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Theatre in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Theatre considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Theatre and the donor restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Theatre; and
- The investment policies of the Theatre.

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

**Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2017 and 2016**

**Note 8 - Continued**

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2016	\$ (107,869)	\$ -	\$ 2,293,492	\$ 2,185,623
Endowment investment return-				
Interest and dividends	13,122	64,889		78,011
Realized and unrealized gains	<u>79,471</u>			<u>79,471</u>
Total endowment investment return	92,593	64,889		157,482
Appropriation of endowment for expenditure	64,889	(64,889)		
Grant to the Theatre	(52,328)			(52,328)
Other Foundation expenses	<u>(12,561)</u>			<u>(12,561)</u>
<b>Endowment Net Assets, December 31, 2016</b>	<b>(15,276)</b>		<b>2,293,492</b>	<b>2,278,216</b>
Endowment investment return-				
Interest and dividends		79,563		79,563
Realized and unrealized gains	<u>15,276</u>	<u>78,591</u>		<u>93,867</u>
Total endowment investment return	15,276	158,154		173,430
Contributions			25,000	25,000
Appropriation of endowment for expenditure	67,878	(67,878)		
Grant to the Theatre	(55,535)			(55,535)
Other Foundation expenses	<u>(12,343)</u>			<u>(12,343)</u>
<b>Endowment Net Assets, December 31, 2017</b>	<b><u>\$ -</u></b>	<b><u>\$ 90,276</u></b>	<b><u>\$ 2,318,492</u></b>	<b><u>\$ 2,408,768</u></b>

**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. The endowment fund had no net deficiency at December 31, 2017 and a net deficiency of \$15,276 at December 31, 2016.

**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% annually. Actual returns in any given year may vary from this amount.

## A CONTEMPORARY THEATRE, INC. AND AFFILIATES

### Notes to the Consolidated Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 8 - 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's spending policy is outlined in the Foundation's bylaws. The Foundation shall distribute at least annually to the Theatre income generated from its investments to include realized income from interest and dividends less amortized return of premium on bonds purchased at a premium, not to exceed the excess of unrestricted assets over the sum of all unrestricted principal gifts to the Foundation since inception. The Foundation Board is empowered to designate an amount within this range taking into account the long-term health of the Foundation and other relevant factors.

#### Note 9 - Transferable Development Rights

During 2014, the City of Seattle awarded Transferable Development Rights (TDRs) to the Theatre and other Seattle-area arts and cultural organizations. These TDRs represent development rights that can be sold to private developers for projects in the City. The Theatre pooled its TDRs with the other organizations and sold the awarded TDRs during the years ended December 31, 2017 and 2016. During the years ended December 31, 2017 and 2016, the Theatre recognized net revenue of \$458,391 and \$582,328, respectively, related to the sale of TDRs.

**SUPPLEMENTARY INFORMATION**

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Financial Position  
December 31, 2017

	ACT	ETC	Foundation	Consolidated Total
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 164,085	\$ 181	\$ -	\$ 164,266
Accounts and interest receivable	25,822			25,822
Current portion of pledges receivable, net	255,954			255,954
Prepaid expenses and deposits	175,480	55		175,535
<b>Total Current Assets</b>	<b>621,341</b>	<b>236</b>		<b>621,577</b>
Long-term pledges receivable, net	323,057		25,000	348,057
Cash restricted for endowment			3,779	3,779
Investments	51,789		2,384,255	2,436,044
Property and equipment, net	680,408	11,841,205		12,521,613
Interorganization receivables (payables)	152,292	(148,026)	(4,266)	
<b>Total Assets</b>	<b>\$ 1,828,887</b>	<b>\$ 11,693,415</b>	<b>\$ 2,408,768</b>	<b>\$ 15,931,070</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 273,800	\$ -	\$ -	\$ 273,800
Accrued expenses	238,655			238,655
Advance ticket sales	939,881			939,881
Current portion of notes payable	1,250,000			1,250,000
<b>Total Current Liabilities</b>	<b>2,702,336</b>			<b>2,702,336</b>
Deferred revenue, net of current portion	435,362			435,362
<b>Total Liabilities</b>	<b>3,137,698</b>			<b>3,137,698</b>
<b>Net Assets:</b>				
Unrestricted	(2,039,797)	11,693,415		9,653,618
Temporarily restricted	730,986		90,276	821,262
Permanently restricted			2,318,492	2,318,492
<b>Total Net Assets</b>	<b>(1,308,811)</b>	<b>11,693,415</b>	<b>2,408,768</b>	<b>12,793,372</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,828,887</b>	<b>\$ 11,693,415</b>	<b>\$ 2,408,768</b>	<b>\$ 15,931,070</b>

See independent auditor's report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Financial Position  
December 31, 2016

	ACT	ETC	Foundation	Consolidated Total
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ -	\$ 181	\$ -	\$ 181
Accounts and interest receivable	17,702			17,702
Current portion of pledges receivable, net	679,264			679,264
Prepaid expenses and deposits	241,789			241,789
<b>Total Current Assets</b>	<b>938,755</b>	<b>181</b>		<b>938,936</b>
Long-term pledges receivable, net	280,374			280,374
Cash restricted for endowment			3,779	3,779
Investments	43,996		2,278,033	2,322,029
Property and equipment, net	695,872	12,344,139		13,040,011
Interorganization receivables (payables)	149,596	(146,000)	(3,596)	
<b>Total Assets</b>	<b>\$ 2,108,593</b>	<b>\$ 12,198,320</b>	<b>\$ 2,278,216</b>	<b>\$ 16,585,129</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 226,359	\$ -	\$ -	\$ 226,359
Accrued expenses	238,882			238,882
Advance ticket sales	1,180,510			1,180,510
Line of credit	645,681			645,681
<b>Total Current Liabilities</b>	<b>2,291,432</b>			<b>2,291,432</b>
Long-term notes payable	1,700,000			1,700,000
Deferred revenue	458,277			458,277
<b>Total Liabilities</b>	<b>4,449,709</b>			<b>4,449,709</b>
<b>Net Assets:</b>				
Unrestricted	(3,674,358)	12,198,320	(15,276)	8,508,686
Temporarily restricted	1,333,242			1,333,242
Permanently restricted			2,293,492	2,293,492
<b>Total Net Assets</b>	<b>(2,341,116)</b>	<b>12,198,320</b>	<b>2,278,216</b>	<b>12,135,420</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,108,593</b>	<b>\$ 12,198,320</b>	<b>\$ 2,278,216</b>	<b>\$ 16,585,129</b>

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, 2017**

	ACT	ETC	Foundation	Eliminating Entries	Consolidated Total
<b>Unrestricted Activities</b>					
<b>Revenue and Support:</b>					
Subscriptions and single tickets	\$ 2,698,606	\$ -	\$ -	\$ -	\$ 2,698,606
Contribution revenue	2,903,737				2,903,737
Endowment investment return			15,276		15,276
Contributions and investment income released from restriction	808,166		67,878		876,044
Memberships	256,853				256,853
In-kind contributions	70,771				70,771
Other revenue	806,241			(55,535)	750,706
Sale of transfer development rights	458,391	458,391		(458,391)	458,391
<b>Total Revenue and Support</b>	<b>8,002,765</b>	<b>458,391</b>	<b>83,154</b>	<b>(513,926)</b>	<b>8,030,384</b>
<b>Expenses:</b>					
Artistic and production	3,552,184	460,362	55,535	(513,926)	3,554,155
Audience development and services	1,378,564				1,378,564
Development	502,887				502,887
Administration	836,967		12,343		849,310
<b>Total Expenses</b>	<b>6,270,602</b>	<b>460,362</b>	<b>67,878</b>	<b>(513,926)</b>	<b>6,284,916</b>
<b>Change in Unrestricted Net Assets Before Depreciation</b>	<b>1,732,163</b>	<b>(1,971)</b>	<b>15,276</b>		<b>1,745,468</b>
Depreciation	97,602	502,934			600,536
<b>Change in Unrestricted Net Assets</b>	<b>1,634,561</b>	<b>(504,905)</b>	<b>15,276</b>		<b>1,144,932</b>
<b>Temporarily Restricted Activities</b>					
Contributions	213,800				213,800
Endowment investment return			158,154		158,154
Loss on uncollectible pledges	(7,890)				(7,890)
Contributions and investment income released from restriction	(808,166)		(67,878)		(876,044)
<b>Change in Temporarily Restricted Net Assets</b>	<b>(602,256)</b>		<b>90,276</b>		<b>(511,980)</b>
<b>Permanently Restricted Activities</b>					
Contributions			25,000		25,000
<b>Change in Permanently Restricted Net Assets</b>			<b>25,000</b>		<b>25,000</b>
<b>Total Change in Net Assets</b>	<b>1,032,305</b>	<b>(504,905)</b>	<b>130,552</b>		<b>657,952</b>
Net assets, beginning of year	(2,341,116)	12,198,320	2,278,216		12,135,420
<b>Net Assets, End of Year</b>	<b>\$ (1,308,811)</b>	<b>\$ 11,693,415</b>	<b>\$ 2,408,768</b>	<b>\$ -</b>	<b>\$ 12,793,372</b>

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, 2016

	ACT	ETC	Foundation	Eliminating Entries	Consolidated Total
<b>Unrestricted Activities</b>					
<b>Revenue and Support:</b>					
Subscriptions and single tickets	\$ 2,637,112	\$ -	\$ -	\$ -	\$ 2,637,112
Contribution revenue	2,047,789				2,047,789
Endowment investment return			92,593		92,593
Contributions and investment income released from restriction	643,894		64,889		708,783
Memberships	243,169				243,169
In-kind contributions	121,511				121,511
Other revenue	717,313			(52,328)	664,985
Sale of transfer development rights	582,328	582,328		(582,328)	582,328
<b>Total Revenue and Support</b>	<b>6,993,116</b>	<b>582,328</b>	<b>157,482</b>	<b>(634,656)</b>	<b>7,098,270</b>
<b>Expenses:</b>					
Artistic and production	3,560,716	584,357	52,328	(634,656)	3,562,745
Audience development and services	1,302,367				1,302,367
Development	574,704				574,704
Administration	944,963		12,561		957,524
<b>Total Expenses</b>	<b>6,382,750</b>	<b>584,357</b>	<b>64,889</b>	<b>(634,656)</b>	<b>6,397,340</b>
<b>Change in Unrestricted Net Assets Before Depreciation</b>	<b>610,366</b>	<b>(2,029)</b>	<b>92,593</b>		<b>700,930</b>
Depreciation	106,224	502,934			609,158
<b>Change in Unrestricted Net Assets</b>	<b>504,142</b>	<b>(504,963)</b>	<b>92,593</b>		<b>91,772</b>
<b>Temporarily Restricted Activities</b>					
Contributions	221,727				221,727
Endowment investment return			64,889		64,889
Contributions and investment income released from restriction	(643,894)		(64,889)		(708,783)
<b>Change in Temporarily Restricted Net Assets</b>	<b>(422,167)</b>				<b>(422,167)</b>
<b>Total Change in Net Assets</b>	<b>81,975</b>	<b>(504,963)</b>	<b>92,593</b>		<b>(330,395)</b>
Net assets, beginning of year	(2,423,091)	12,703,283	2,185,623		12,465,815
<b>Net Assets, End of Year</b>	<b>\$ (2,341,116)</b>	<b>\$ 12,198,320</b>	<b>\$ 2,278,216</b>	<b>\$ -</b>	<b>\$ 12,135,420</b>

See independent auditor's report.