

August 1, 2019

Greetings,

Thank you for your interest in learning more about ACT's fiscal health. We are pleased to make available the audited financial statements for fiscal year 2018. Following this letter, you will find the complete audit as 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 continues on a strong financial course. It met its annual operating budget goals and ended the year with no debt and positive net assets. While ACT eliminated its decades-old accumulated deficit in 2018, it continues to work to address its underlying causes.

Debt Retirement

ACT has carried varying levels of debt since relocating downtown in 1996. Debt retirement was an organizational focus in 2018 and was achieved through significant estate gifts from two longstanding friends of the theatre—Nancy Alvord and Karyl Winn. A group of ACT Trustees contributed nearly \$200,000, and the ACT Foundation made a one-time gift to complete payment of debt.



2018 Results

ACT has 4,002 Mainstage season subscribers and 905 ACTPass Members. Combined, these package ticket buyers contribute significantly to ACT's earned revenue. ACT's 53rd season on the Mainstage brought in 17,754 single ticket buyers for over 380 performances. ACTLab attracted 17,334 attendees across 154 performances of various events created through partnerships with area artists. The 43rd annual production of *A Christmas Carol* brought in 15,215 and almost \$800,000 in revenue. There were 641 performances and events in ACT's five venues in 2018. Total attendance was over 117,000.

Artistic Milestones

ACT's Core Company added five phenomenal performers for the 2018 season; Christine Marie Brown, Avery Clark, Rachel Guyer-Mafune, Brandon O'Neill, and Chip Sherman. In addition to these actors, playwright Yussef El Guindi joined the Core Company. ACT will present the world premiere of El Guindi's, *People of the Book*, in September 2019.

Highlights of the 2018 season included the eighth co-production with The 5th Avenue Theatre, *Ride the Cyclone*. The show was a favorite among our teen and young adult audiences breaking the record for most Teen Tix tickets sold for a musical. Sarah DeLappe's *The Wolves* delivered a soccer pitch filled with athletic energy and high-caliber performances from an all-female cast to the Allen Theatre. ACT was very pleased to partner with Seattle Reign FC, Seattle's professional women's soccer team, to bridge the gap between sports enthusiast and theatre-goer. In June 2018, ACT welcomed Dael Orldandersmith and her one-woman show, *Until the Flood*, that focused on the aftermath in Ferguson, Missouri after the killing of Michael Brown. The Allen Theatre was transformed into a thrust stage, and Ms. Orlandersmith's performance riveted audiences. Following was an original work by film and TV actress and comedian, Lauren Weedman, in the comedy with music, *Lauren Weedman Doesn't Live Here Anymore*. David Hare's award-winning play, *Skylight*, wowed audience with the intimate telling of a story of past lovers reuniting in a small flat on a wintery London evening. The show's creative team received critical and audience cheers for the incredible set with its working kitchen (a spaghetti dinner was cooked on stage) and subtly clanking pipes. The sixth production in the 2018 season, *OSLO*, exceeded its financial goal by over \$66,000 and brought in 825 new patrons to the theatre, closing to standing-room-only performances.

In the ACTLab we were thrilled to welcome back regular partners like Pratidhwani, BenDeLaCreme, Seagull Project, 14/48, and Ese Teatro, as well a number of new partners. The newly formed Sensible Theatre Company presented their first ever full production of *Pageant*. They performed to sold out audiences and exceeded their goal by \$21,000. We capped our season with a new partner and cherished holiday tradition, *The Dina Martina Christmas Show*. This Seattle holiday favorite was received with rave



reviews and sold out houses and was our highest grossing show in the ACTLab season, breaking the all-time sales record for the ACTLab.

ACT held our first ever ACTOne Festival in partnership with One Coast Collaboration. This new play festival was artist-centered and offered an opportunity for playwrights, directors, and actors to spend time developing new scripts and creating an atmosphere for inspirational and enthusiastic collaboration among artists. Our inaugural festival featured five artists; Martyna Majok, Philip Dawkins, Mara Nelson-Greenberg, Wayne Rawley, and Martin Lowe.

ACT's Young Playwrights Program (YPP) started in 2002 and has more than doubled in size since its inaugural year. The 2018 YPP served 10 schools in 13 classrooms and included a special non-school partnership with Red Eagle Soaring, a Native American youth theatre company. YPP teaches students how to write a play, and like most arts education, supports other learning as well. Students said, "Thank you for teaching me how to work and collaborate with others." "You have really been an instrumental part of allowing me to learn who I am, and who I want to be." With 40% of YPP students participation on scholarship, ACT supports greater access for students with little or no other arts education opportunity.

ACT's Future

The Board of Trustees and ACT turned our eyes to the future as we began building the framework for a new strategic plan. Sue Coliton from Luma Consulting and Bookda Gheisar, a consultant on equity and inclusion, led the strategic planning process, supported in part by The Morgan Fund. An extensive survey period resulted in incredible feedback from of our audience, Board of Trustees, subscribers, ACTPass members, and staff, which formed the foundation from which the strategic plan emerged. This work continues into 2019. At the heart of the plan is an underlying commitment to **financial sustainability** and **Equity, Diversity, and Inclusion (EDI)**.

Both the board and staff have participated in EDI trainings, and a staff-driven EDI committee meets monthly to continue this work internally. We strive to make our theatre a place where all in our community are invited and feel welcomed.



Our Historic Home

ACT's building (Eagles Theatre Centre) emerged as a focus of our strategic plan, as we continue to steward and preserve our historic home. Our building is on the National Register of Historic places, a Seattle Landmarked building, and a member of Seattle's Downtown Historic Theatre District.

We completed the renovation of our Ticket Office in time to welcome audiences for the 2018 season. The bold, contemporary new design brightens and elevates the patron experience upon arrival and is a fresh interpretation of our historic home. We continue work to modernize our building while honoring the history that has come before us.

Sincerely,



Becky Witmer
Managing Director



A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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.



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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, 2018 and 2017, 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 New Accounting Standard

As discussed in Note 1, the Theatre adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. 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 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 PS

Certified Public Accountants
June 19, 2019

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Financial Position
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 119,170	\$ 164,266
Accounts and interest receivable	14,948	25,822
Current portion of pledges receivable, net	571,518	255,954
Prepaid expenses and deposits	<u>131,201</u>	<u>175,535</u>
Total Current Assets	836,837	621,577
Long-term pledges receivable, net	14,567	348,057
Cash restricted for endowment		3,779
Investments	2,092,244	2,436,044
Property and equipment, net	<u>12,134,908</u>	<u>12,521,613</u>
Total Assets	<u>\$ 15,078,556</u>	<u>\$ 15,931,070</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 263,008	\$ 273,800
Accrued expenses	259,727	238,655
Advance ticket sales	904,775	939,881
Current portion of notes payable		<u>1,250,000</u>
Total Current Liabilities	1,427,510	2,702,336
Deferred revenue	<u>412,447</u>	<u>435,362</u>
Total Liabilities	1,839,957	3,137,698
Net Assets:		
Without donor restrictions	10,919,123	9,653,618
With donor restrictions	<u>2,319,476</u>	<u>3,139,754</u>
Total Net Assets	<u>13,238,599</u>	<u>12,793,372</u>
Total Liabilities and Net Assets	<u>\$ 15,078,556</u>	<u>\$ 15,931,070</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Activities Without Donor Restrictions
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue and Support:		
Subscriptions and single tickets	\$ 2,441,619	\$ 2,698,606
Contribution revenue	3,894,170	2,903,737
Contributions released from restriction	703,682	863,701
Memberships	225,534	256,853
In-kind contributions	71,132	70,771
Other revenue	703,809	750,706
Sale of transferable development rights		458,391
	<u>8,039,946</u>	<u>8,002,765</u>
Total Revenue and Support	8,039,946	8,002,765
Expenses:		
Artistic and production	3,456,208	3,554,155
Audience development and services	1,281,200	1,378,564
Development	617,202	502,887
Administration	818,226	837,613
	<u>6,172,836</u>	<u>6,273,219</u>
Total Expenses	6,172,836	6,273,219
Change in Net Assets Without Donor Restrictions Before Depreciation	1,867,110	1,729,546
Depreciation	601,605	600,536
	<u>601,605</u>	<u>600,536</u>
Change in Net Assets Without Donor Restrictions	\$ 1,265,505	\$ 1,129,010

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Activities Without Donor Restrictions		
Revenue and support	\$ 7,336,264	\$ 7,139,064
Contributions released from restriction	703,682	863,701
Expenses	<u>(6,774,441)</u>	<u>(6,873,755)</u>
Change in Net Assets Without Donor Restrictions	1,265,505	1,129,010
Activities With Donor Restrictions		
Contributions	30,000	238,800
Endowment investment return	(122,578)	161,733
Loss on uncollectible pledges	(24,018)	(7,890)
Contributions released from restriction	<u>(703,682)</u>	<u>(863,701)</u>
Change in Net Assets With Donor Restrictions	(820,278)	(471,058)
Total Change in Net Assets	445,227	657,952
Net assets, beginning of year	<u>12,793,372</u>	<u>12,135,420</u>
Net Assets, End of Year	<u>\$ 13,238,599</u>	<u>\$ 12,793,372</u>

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	<u>Production</u>	<u>Audience</u>	<u>Development</u>	<u>Administration</u>	<u>2018 Total</u>	<u>2017 Total</u>
Salaries and wages	\$ 1,736,765	\$ 660,935	\$ 304,267	\$ 401,451	\$ 3,103,418	\$ 3,109,945
Benefits	514,566	127,051	46,625	80,748	768,990	821,873
Fees, insurance, permits, taxes, miscellaneous	54,302	83,598	166,769	182,692	487,361	558,014
Facilities	345,816	60	1,440	121	347,437	304,677
Guest artists	327,760		11,325		339,085	237,825
Professional services	93,685	79,810	22,905	73,258	269,658	292,317
Supplies and materials	190,360	2,958	25,355	5,946	224,619	240,293
Printing and postage	853	146,168	34,850	2,021	183,892	277,910
Advertising	4,737	180,575	2,427		187,739	149,708
Royalties and Playwrights	154,048				154,048	175,194
Equipment, computer repair and maintenance, software	33,316	45	1,239	71,989	106,589	105,463
Expenses before depreciation	3,456,208	1,281,200	617,202	818,226	6,172,836	6,273,219
Depreciation	534,389	43,537	5,384	18,295	601,605	600,536
Total Functional Expenses	\$ 3,990,597	\$ 1,324,737	\$ 622,586	\$ 836,521	\$ 6,774,441	\$ 6,873,755

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidated Statements of Cash Flows
For the Year Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 445,227	\$ 657,952
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	601,605	600,536
Forgiveness of notes payable		(225,000)
Realized and unrealized losses (gains) on investments	178,354	(93,867)
Cash (used) provided by changes in operating assets and liabilities:		
Accounts and interest receivable	10,874	(8,120)
Pledges receivable	17,926	355,627
Prepaid expenses and deposits	44,334	66,254
Accounts payable	(10,792)	47,441
Accrued expenses	21,072	(227)
Advance ticket sales	(35,106)	(240,629)
Deferred revenue	(22,915)	(22,915)
Net Cash Provided by Operating Activities	1,250,579	1,137,052
Cash Flows From Investing Activities:		
Purchase of property and equipment	(214,900)	(82,138)
Net change in cash restricted for endowment	3,779	
Proceeds from sale of investments	265,428	1,332,244
Purchase of investments	(99,982)	(1,352,392)
Net Cash Used in Investing Activities	(45,675)	(102,286)
Cash Flows From Financing Activities:		
Net line of credit activity		(645,681)
Payments on notes payable	(1,250,000)	(225,000)
Net Cash Used in Financing Activities	(1,250,000)	(870,681)
Net Change in Cash and Cash Equivalents	(45,096)	164,085
Cash and cash equivalents, beginning of year	164,266	181
Cash and Cash Equivalents, End of Year	\$ 119,170	\$ 164,266
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 98,264	\$ 146,736
Forgiveness of notes payable	\$ -	\$ 225,000

See accompanying notes.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

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, 2018 and 2017.

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.

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, 2018 and 2017, 50% and 56%, 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, 2018 and 2017, 51% and 64% of the Theatre's pledges receivable were from two grantors, respectively. For the year ended December 31, 2018, 36% of the Theatre's contributions were from two donors. There were no contribution concentrations for the year ended December 31, 2017.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Continued

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, 2018 and 2017, donated services and materials equaled \$71,132 and \$70,771, 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, 2018 and 2017 was \$185,739 and \$149,708, 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. Expenses categorized on a full functional basis for the year ended December 31, 2017 consisted of: production \$4,087,594, audience \$1,422,024, development \$508,261, and administration \$855,875.

New Accounting Pronouncement - During the year ended December 31, 2018, the Theatre adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) required for fiscal years beginning after December 15, 2017. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 10).

Reclassifications - Certain reclassifications have been made to the 2017 amounts to conform to the 2018 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets, or change in net assets for 2017.

Subsequent Events - The Theatre has evaluated subsequent events through June 19, 2019, the date on which the financial statements were available to be issued.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

Note 2 - Pledges Receivable

Pledges receivable consisted of the following at December 31:

	2018	2017
Receivables due in less than one year	\$ 571,518	\$ 280,954
Receivables due in two to five years	10,000	338,911
	581,518	619,865
Less present value discount of 3%	(433)	(15,854)
Total Pledges Receivable, Net	\$ 581,085	\$ 604,011

Foundation pledges receivable of \$0 and \$25,000 for the years ended December 31, 2018 and 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.

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, 2018 and 2017

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, 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

	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
Total Investments at Fair Value	\$ 1,174,053	\$ 1,159,249	2,333,302
Investments valued at cost-			
Certificate of deposit held at bank			51,789
Money market funds			50,953
Total Investments			\$ 2,436,044

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

	2018	2017
Interest and dividends	\$ 71,204	\$ 79,563
Realized and unrealized (losses) gains	(178,354)	93,867
Fees	(15,428)	(11,697)
	\$ (122,578)	\$ 161,733

The investments of the Foundation at December 31, 2018 and 2017, are pledged as collateral for the line of credit described in Note 6. The certificate of deposit totaling \$51,789 at December 31, 2018 and 2017, 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, 2018 and 2017

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 13,054,330	\$ 12,930,839
Land	2,411,188	2,411,188
Theatre equipment	1,419,120	1,339,759
Theatre furnishings and lights	179,795	179,795
Office and other equipment	749,817	737,765
Box office and development software	392,360	392,360
Nondepreciable piano	35,000	35,000
Automobile	<u>10,000</u>	<u>10,000</u>
	18,251,610	18,036,706
Less accumulated depreciation	<u>(6,116,702)</u>	<u>(5,515,093)</u>
Total Property and Equipment, Net	<u>\$ 12,134,908</u>	<u>\$ 12,521,613</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% (5.75% and 5.00% at December 31, 2018 and 2017, respectively) and the line of credit matures October 31, 2019. There were no balances outstanding at December 31, 2018 and 2017.

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 remaining principal due at maturity on December 31, 2018. The note was repaid in full during 2018. The balance at December 31, 2017 was \$1,250,000.

Total interest expense for the years ended December 31, 2018 and 2017, was \$98,264 and \$146,736, respectively.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017

Note 7 - Net Assets With Donor Restrictions

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

	<u>2018</u>	<u>2017</u>
Subject to the passage of time or expenditure for specified purpose-		
Major gifts campaign	\$ -	\$ 374,965
Restoration and renovation	146,052	184,033
Pledges receivable	112,880	146,988
Artist residency	<u>25,000</u>	<u>25,000</u>
Total subject to the passage of time or expenditure for specified purpose	283,932	730,986
Endowment funds-		
Original gifts and required retained earnings (corpus)	2,318,492	2,318,492
Accumulated unspent (deficit) earnings on endowment	<u>(282,948)</u>	<u>90,276</u>
Total endowment funds	<u>2,035,544</u>	<u>2,408,768</u>
Total Net Assets With Donor Restrictions	<u>\$ 2,319,476</u>	<u>\$ 3,139,754</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, 2018 and 2017

Note 8 - Continued

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

	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 2,408,768	\$ 2,278,216
Endowment investment return, net	(122,578)	161,733
Contributions		25,000
Appropriation of endowment for expenditure	(250,000)	(55,535)
Other Foundation expenses	<u>(646)</u>	<u>(646)</u>
Endowment Net Assets, End of Year	<u>\$ 2,035,544</u>	<u>\$ 2,408,768</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, 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. There was no net deficiency at December 31, 2017.

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.

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.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

**Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017**

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 remaining awarded TDRs during the year ended December 31, 2017, recognizing net revenue of \$458,391.

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 and is then repaid in full by the end of the fiscal year. 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>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 119,170	\$ 164,266
Accounts receivable, to be collected in less than one year	14,948	25,822
Pledges receivable, net, to be collected in less than one year and endowment pledges	571,518	255,954
Investments	<u>2,092,244</u>	<u>2,436,044</u>
Total financial assets, excluding noncurrent receivables	2,797,880	2,882,086
Less financial assets unavailable for general expenditures-		
Endowment fund investments	(2,040,455)	(2,384,255)
Pledges restricted for restoration and renovation	(146,052)	(146,988)
Pledges restricted for artist residency	(25,000)	(25,000)
Actors Union Bond	<u>(51,789)</u>	<u>(51,789)</u>
Financial assets unavailable for general expenditures	<u>(2,263,296)</u>	<u>(2,608,032)</u>
Total Financial Assets Available for General Expenditure Within One Year	<u><u>\$ 534,584</u></u>	<u><u>\$ 274,054</u></u>

SUPPLEMENTARY INFORMATION

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	131,146	55		131,201
Total Current Assets	836,601	236		836,837
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	\$ 1,854,660	\$ 11,188,352	\$ 2,035,544	\$ 15,078,556
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, net of current portion	412,447			412,447
Total Liabilities	1,839,957			1,839,957
Net Assets:				
Without donor restrictions	(269,229)	11,188,352		10,919,123
With donor restrictions	283,932		2,035,544	2,319,476
Total Net Assets	14,703	11,188,352	2,035,544	13,238,599
Total Liabilities and Net Assets	\$ 1,854,660	\$ 11,188,352	\$ 2,035,544	\$ 15,078,556

See independent auditor's report.

A CONTEMPORARY THEATRE, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2017

	ACT	ETC	Foundation	Consolidated Total
Assets				
Current Assets:				
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
Total Current Assets	621,341	236		621,577
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)	
Total Assets	\$ 1,828,887	\$ 11,693,415	\$ 2,408,768	\$ 15,931,070
Liabilities and Net Assets				
Current Liabilities:				
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
Total Current Liabilities	2,702,336			2,702,336
Deferred revenue	435,362			435,362
Total Liabilities	3,137,698			3,137,698
Net Assets:				
Without donor restrictions	(2,039,797)	11,693,415		9,653,618
With donor restrictions	730,986		2,408,768	3,139,754
Total Net Assets	(1,308,811)	11,693,415	2,408,768	12,793,372
Total Liabilities and Net Assets	\$ 1,828,887	\$ 11,693,415	\$ 2,408,768	\$ 15,931,070

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	1,281,200				1,281,200
Development	617,202				617,202
Administration	817,580		646		818,226
Total Expenses	6,170,061	2,129	250,646	(250,000)	6,172,836
Change in Net Assets Without Donor Restrictions Before Depreciation	1,869,239	(2,129)			1,867,110
Depreciation	98,671	502,934			601,605
Change in Net Assets Without Donor Restrictions	1,770,568	(505,063)			1,265,505
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	1,323,514	(505,063)	(373,224)		445,227
Net assets, beginning of year	(1,308,811)	11,693,415	2,408,768		12,793,372
Net Assets, End of Year	\$ 14,703	\$ 11,188,352	\$ 2,035,544	\$ -	\$ 13,238,599

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
Activities Without Donor Restrictions					
Revenue and Support:					
Subscriptions and single tickets	\$ 2,698,606	\$ -	\$ -	\$ -	\$ 2,698,606
Contribution revenue	2,903,737				2,903,737
Contributions and investment income released from restriction	808,166		55,535		863,701
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
Total Revenue and Support	8,002,765	458,391	55,535	(513,926)	8,002,765
Expenses:					
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		646		837,613
Total Expenses	6,270,602	460,362	56,181	(513,926)	6,273,219
Change in Net Assets Without Donor Restrictions Before Depreciation	1,732,163	(1,971)	(646)		1,729,546
Depreciation	97,602	502,934			600,536
Change in Net Assets Without Donor Restrictions	1,634,561	(504,905)	(646)		1,129,010
Activities With Donor Restrictions					
Contributions	213,800		25,000		238,800
Endowment investment return			161,733		161,733
Loss on uncollectible pledges	(7,890)				(7,890)
Contributions and investment income released from restriction	(808,166)		(55,535)		(863,701)
Change in Net Assets With Donor Restrictions	(602,256)		131,198		(471,058)
Total Change in Net Assets	1,032,305	(504,905)	130,552		657,952
Net assets, beginning of year	(2,341,116)	12,198,320	2,278,216		12,135,420
Net Assets, End of Year	\$ (1,308,811)	\$ 11,693,415	\$ 2,408,768	\$ -	\$ 12,793,372

See independent auditor's report.